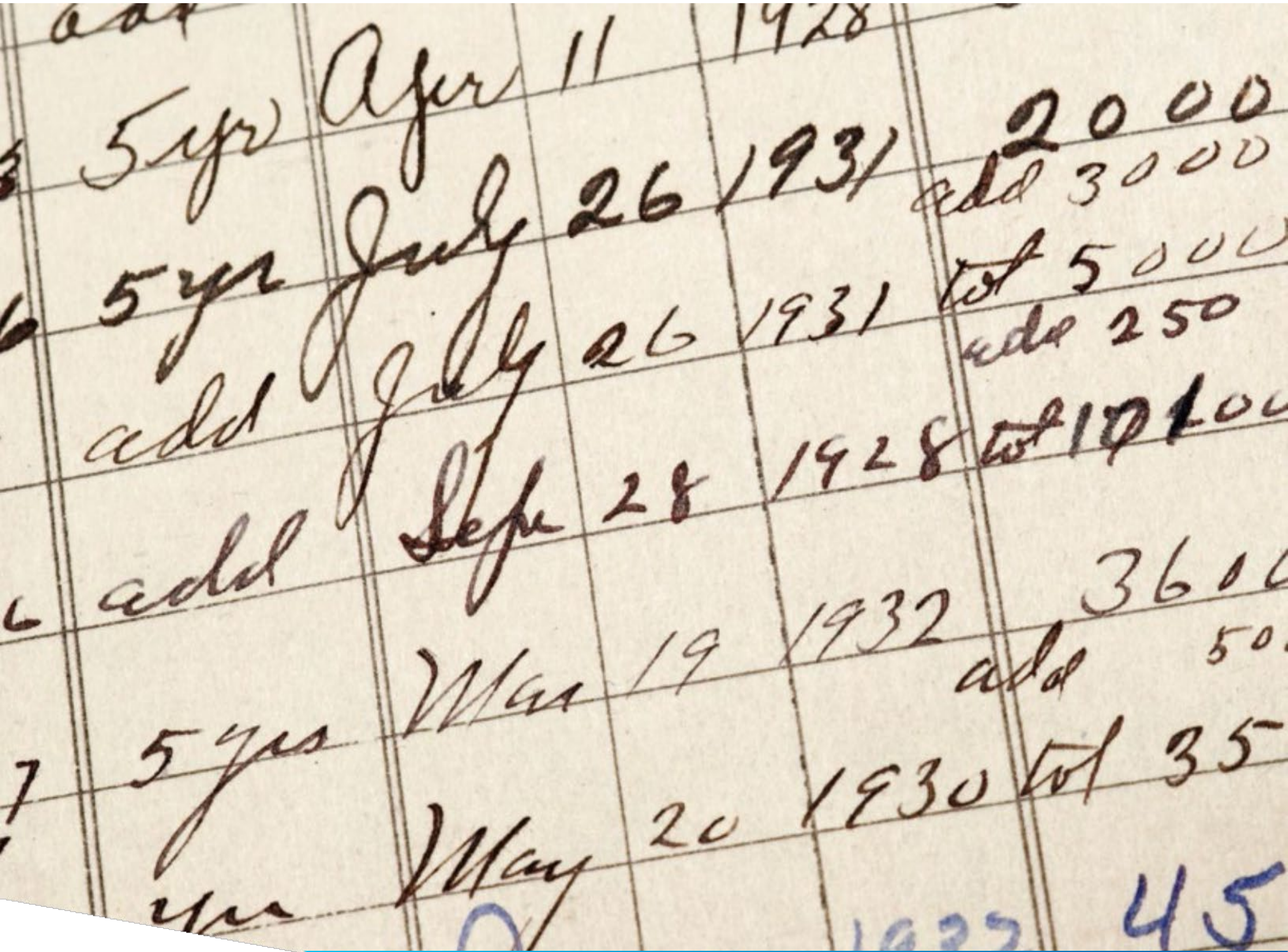
IMPLEMENTING IPSAS: A GUIDE FOR TRAINERS



First-time Adoption of Accrual Basis IPSAS

2024 Edition

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The Handbook of International Public Sector Accounting Pronouncements is the primary authoritative source of international generally accepted accounting principles for public sector entities.

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Structure of Module

- IPSAS 33 First-time Adoption of Accrual Basis International Public Sector Accounting Standards® (IPSAS)
- Practical Issues

There are two sections to this module. The first section sets out the requirements of IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*. The second section incorporates a discussion of the practical issues to be addressed in transitioning to the accrual basis IPSAS.

IPSAS 33 – Objective

- Financial Statements will include information:
  - That provides transparent reporting about a first-time adopter's transition to accrual basis IPSAS;
  - That provides a suitable starting point for accounting in accordance with accrual basis IPSAS irrespective of the basis of accounting the first-time adopter has used prior to the date of adoption; and
  - Where the benefits are expected to exceed the costs.

The objective in IPSAS 33 is to provide guidance that enables a first-time adopter of accrual basis IPSAS to provide useful information to the users of its financial statements during the time it is transitioning to accrual basis IPSAS.

IPSAS 33 recognizes that the process of adopting accrual basis IPSAS for the first time may be challenging for some entities, and take a number of years. IPSAS 33 aims to ensure that the users of the financial statements have the information they will need, including:

- Which items have been included in the financial statements, and the basis on which they have been included;
- Which items have not yet been included in the financial statements; and
- The progress made towards full compliance with IPSAS.

IPSAS 33 – Objective

- Addresses different types of transition to accrual IPSAS
- Transition starting point may be reporting on:
  - A cash basis
  - An accrual basis under another reporting framework
  - A modified version of either the cash or accrual basis of accounting

IPSAS 33 acknowledges that there is no common starting point for first-time adopters of accrual basis IPSAS. These entities may be reporting on a cash basis; an accrual basis using a different reporting framework to IPSAS; or a modified version of with either the cash of accrual basis of accounting.

Equally, there is no set path from the current reporting basis to accrual basis IPSAS. IPSAS 33 seeks to provide sufficient flexibility to allow each entity to adopt the path that is most suitable for its circumstances, whilst ensuring that the first-time adopter presents high quality information to the users of its financial statements.

IPSAS 33 – Scope

- Applies from the date on which first-time adopter adopts accrual-basis IPSAS and during the period of transition
- IPSAS 33 is last stage of adoption process
- Road map / plan needed to reach that point

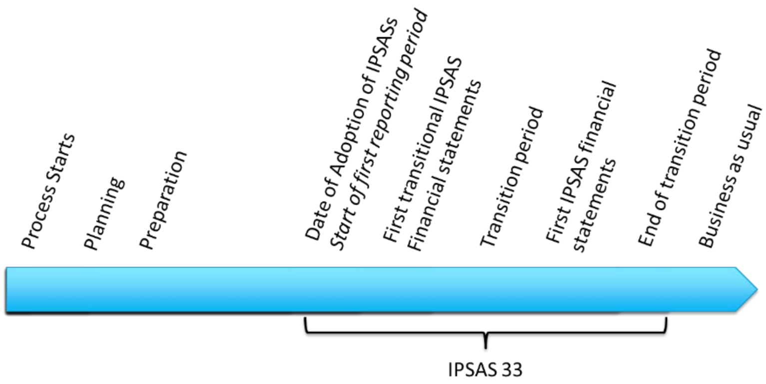
IPSAS 33 applies to entities preparing and presenting their annual financial statements on the adoption of, and during the transition to, accrual basis IPSAS. IPSAS 33 does not apply to entities that have previously presented financial statements that contained an explicit and unreserved statement of compliance with accrual basis IPSAS.

For many entities, IPSAS 33 will come at the end of the process to adopt accrual basis IPSAS. There is likely to be much preparatory work to be undertaken before an entity is able to present financial statements under accrual basis IPSAS, and thus fall within the scope of IPSAS 33. Until an entity is ready to present financial statements under accrual basis IPSAS, IPSAS 33 does not apply.

Entities will need to prepare a detailed “road map” and project plan to enable them to complete the preparatory work and begin preparing financial statements in accordance with IPSAS 33.

IPSAS 33 – Scope and Definitions

The following diagram illustrates the scope of IPSAS 33:



IPSAS 33 defines the following terms, some of which are used in the above diagram.

Date of adoption of IPSAS is the date an entity adopts accrual basis IPSAS for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

Deemed cost is an amount used as a surrogate for transaction price at the measurement date. (Defined in IPSAS 46, *Measurement*),

First IPSAS financial statements are the first annual financial statements in which an entity complies with the accrual basis IPSAS and can make an explicit and unreserved statement of compliance with those IPSAS because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.

First-time adopter is an entity that adopts accrual basis IPSAS for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

Opening statement of financial position is a first-time adopter's statement of financial position at the date of adoption of IPSAS.

Period of transition is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies with the accrual basis IPSAS, and before it is able to make an explicit and unreserved statement of such compliance with IPSAS.

Previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSAS.

Transitional IPSAS financial statements are the financial statements prepared in accordance with this IPSAS where a first-time adopter cannot make an explicit and unreserved statement of compliance with other IPSAS because it adopted one or more of the transitional exemptions in this IPSAS that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.

IPSAS 33 also includes further guidance on these terms.

It is important to note that IPSAS 33 defines two sets of financial statements. An entity's ***first IPSAS financial statements*** are the first annual financial statements in which an entity complies with the accrual basis IPSAS and can make an explicit and unreserved statement of compliance with those IPSAS. For many entities, these will not be the first financial statements issued in accordance with IPSAS 33. Many entities will initially take advantage of transitional exemptions provided by IPSAS 33 that affect fair presentation and compliance with IPSAS. In these circumstances, an entity will not be able to claim compliance with IPSAS and will describe its financial statements as ***transitional IPSAS financial statements***.

IPSAS 33 – Recognition and Measurement

- Opening statement of financial position
  - At the date of adoption of IPSAS
- Accounting policies
  - IPSAS applied retrospectively except where IPSAS 33 requires or permits alternative approach
  - Applied consistently to all periods except as specified in IPSAS 33
  - Are amended during transition period as entity stops relying on exemptions

IPSAS 33 requires a first-time adopter to prepare and present an opening statement of financial position at the date of adoption of IPSAS. This is the starting point for its accounting in accordance with accrual basis IPSAS.

Unless required or permitted by IPSAS 33, a first-time adopter prepares its opening statement of financial position by:

a) Recognizing all assets and liabilities whose recognition is required by IPSAS;

b) Not recognizing items as assets or liabilities if IPSAS do not permit such recognition;

c) Reclassifying items that it recognized in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with IPSAS; and

d) Applying IPSAS in measuring all recognized assets and liabilities.

This requirement confirms that the general principle of retrospective application applies to the first-time adoption of accrual basis IPSAS. Unless IPSAS 33 requires (or permits) an alternative approach, IPSAS are applied retrospectively. In other words, items are accounted for in the financial statements as if they had always been accounted for under IPSAS.

IPSAS 33 confirms that, usually, a first-time adopter will apply the same accounting policies in its opening statement of financial position and throughout all periods presented. Exceptions to this principle may arise where a first-time adopter is taking advantage of the exemptions permitted by IPSAS 33. In such cases, accounting policies may need to be amended from period to period as the first-time adopter begins to recognize, measure and/or present items in accordance with IPSAS.

Any new IPSAS that become effective during the period of transition are applied by the first-time adopter from the date the new IPSAS becomes effective.

IPSAS 33 – Exceptions to retrospective application of IPSAS

- Estimates consistent with estimates made in accordance with the previous basis of accounting
  - Adjusted to reflect differences in accounting policies
- Further information after date of adoption of IPSAS treated as non-adjusting event
- Estimates required for items not recognized under previous basis of accounting
  - Reflect conditions at date of adoption of IPSAS or date during period of transition if recognized later

IPSAS 33 includes some mandatory exceptions to the retrospective application of IPSAS to the estimates made by the first-time adopter.

Estimates are to be consistent with the estimates made in accordance with the previous basis of accounting, although they may need to be adjusted to reflect differences in accounting policies. A first-time adopter may receive information after the date of adoption of IPSAS about estimates that it had made under its previous basis of accounting. This is treated in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14, *Events after the Reporting Period*. In other words, any adjustment recognized as a result of the receipt of the information is recognized in the year in which the information is received; prior periods are not restated.

A first-time adopter may need to make estimates that were not required under the previous basis of accounting. Those estimates should reflect conditions that existed at the date of adoption of IPSAS (or at the date during the period of transition where items are recognized after the date of adoption of IPSAS). In particular, estimates of market prices, interest rates or foreign exchange rates should reflect market conditions at that date. For non-financial assets, such as property, plant and equipment, estimates about the asset's useful life, residual value or condition reflect management's expectations and judgment at the date of adoption of IPSAS or the date during the period of transition.

IPSAS 33 – Fair Presentation and Compliance with IPSAS

- A first-time adopter's first IPSAS financial statements shall fairly present: the financial position, financial performance, and cash flows of the entity
- Some exemptions affect fair presentation and compliance with IPSAS
  - If using these exemptions, prepare transitional IPSAS financial statements
- Consider materiality in assessing fair presentation and compliance

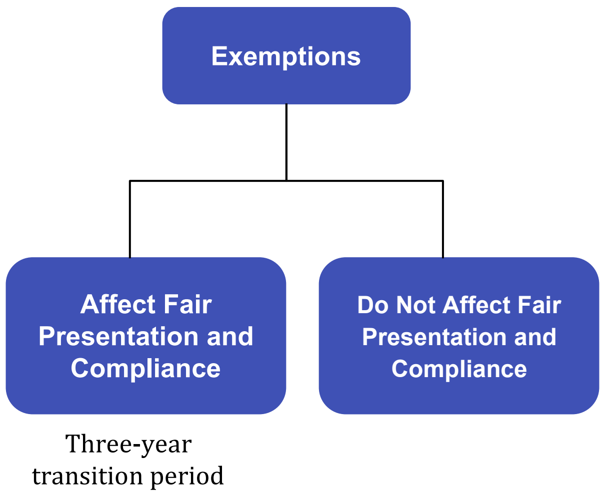
A first-time adopter's ***first IPSAS financial statements*** need to fairly present the financial position, financial performance, and cash flows of the entity. Some of the exemptions provided by IPSAS 33 will affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSAS, until the exemptions that provided the relief have expired and/or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

Until such time as the first-time adopter is able to assert compliance with accrual basis IPSAS, the first-time adopter should prepare ***transitional IPSAS financial statements***. A first-time adopter can claim full compliance with IPSAS only when it has complied with all the requirements of the applicable IPSAS effective at that date (with the exception of those exemptions permitted by IPSAS 33 that do not affect fair presentation and compliance).

When assessing whether it can fairly present its financial position, financial performance, and cash flows, an entity needs to consider materiality. For example, a first-time adopter may adopt the three-year transitional relief period for the recognition and measurement of traffic fines, because insufficient data is available about the value of fines issued and written off. If the entity does not take advantage of any other reliefs, and the revenue received from fines is not material in relation to the financial statements as a whole, the entity can conclude that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSAS will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSAS at the date of adoption of accrual basis IPSAS or during the period of transition.

So far, this module has referred to exemptions offered by IPSAS 33. These are now discussed in more detail.

IPSAS 33 – Optional Exemptions



IPSAS 33 – Exemptions affecting Fair Presentation and Compliance

- Three-year exemption for recognizing and/or measuring assets and liabilities:
  - Inventories
  - Investment property
  - Property, plant and equipment
  - Defined benefit plans and other long-term employee benefits
  - Biological assets and agricultural produce
  - Intangible assets
  - Right-of-use assets and the related lease liabilities
  - Service concession assets and related liabilities
  - Financial instruments
  - Social Benefits
- Three-year exemption for recognizing and measuring non-exchange revenue
- Exemptions where related assets / liabilities not recognized or measured
  - Borrowing costs
  - Leases
  - Provisions, contingent liabilities and contingent assets
  - Public sector combinations
- Related party disclosures
- Interests in other entities

One of the main exemption provided by IPSAS 33 that affects fair presentation and compliance relates to the measurement and recognition of assets and liabilities.

Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSAS:

a) Inventories (see IPSAS 12, *Inventories*);

b) Investment property (see IPSAS 16, *Investment Property*);

c) Property, plant and equipment (see IPSAS 45, *Property, Plant and Equipment*);

d) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);

e) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);

f) Intangible assets (see IPSAS 31, *Intangible Assets*);

g) Right-of-use assets and the related lease liabilities (see IPSAS 43, *Leases*)

h) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);

i) Financial instruments (see IPSAS 41, *Financial Instruments*); and

j) Social Benefits (see IPSAS 42, *Social Benefits*).

A first-time adopter may change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories is permitted in the applicable IPSAS. So, for example, an entity may change its accounting policies in respect of the recognition and measurement of vehicles in one reporting period, and change its accounting policies in respect of the recognition and measurement of land and buildings in a subsequent period as it obtains the relevant information, as IPSAS 45 permits the use of classes. This enables an entity to provide useful information on those classes of asset or liability for which that information is available, without it having to wait for information to available for every asset or liability covered by a particular IPSAS.

These transitional exemptions are intended to allow a first-time adopter a period of time to develop reliable models for recognizing and/or measuring its assets and/or liabilities during the period of transition.

Where a first-time adopter uses the transitional exemptions and does not recognize and/or measure financial liabilities, it is not required to recognize and/or measure any related expenses. Consequently, a first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of transfer expenses during the transition period. A first-time adopter may change its accounting policy in respect of transfer expenses on a class-by-class basis. This is intended to allow a first-time adopter a period of time to develop reliable models for accounting for transfer expenses.

A similar exemption is available for recognizing and measuring revenue. A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of revenue for a period of up to three years. Again, this is intended to allow a first-time adopter a period of time to develop reliable models for recognizing and/or measuring its revenue. As with assets and liabilities, a first-time adopter may change its accounting policies for revenue on a class-by-class basis. It may, for example, take less time to develop a reliable model for recognizing and measuring property taxes than to develop an equivalent model for income taxes, and for other revenue without binding arrangements than revenue with binding arrangements.

Other exemptions are available where the related assets or liabilities have not been recognized or measured. For example, an entity that has not recognized or measured its property, plant and equipment would not be in a position to capitalize borrowing costs in accordance with IPSAS 5, *Borrowing Costs*. A first-time adopter need not comply with IPSAS 5 until it is no longer relying on the exemption from recognizing and measuring property, plant and equipment. Similarly, until the first-time adopter is no longer relying on the exemption from recognizing and measuring property, plant and equipment, it is not required to apply the requirements related to leases, or to recognize and/or measure a liability relating to the initial estimate of costs of dismantling and removing an item and restoring the site on which the asset is located.

For similar reasons, an entity is not required to recognize assets and liabilities acquired under a public sector combination (see IPSAS 40, *Public Sector Combinations*) if it is yet to recognize that class of assets or liabilities. However, if it does not recognize all the assets and liabilities associated with a public sector combination, it is not permitted to recognize goodwill. Instead, and difference between the consideration paid and the net assets / liabilities recognized is reported in net assets/equity.

A first-time adopter is not required to disclose related party relationships, related party transactions and information about key management personnel for reporting periods beginning on a date within three years following the date of adoption of IPSAS, although it is encouraged to disclose any information that is known.

Where a first-time adopter has not recognized its interests in controlled entities, associates or joint ventures under its previous basis of accounting, it is not required to recognize and/or measure its interests in other entities as a controlled entity, associate or joint venture for reporting periods beginning on a date within three years following the date of adoption of accrual basis IPSAS.

Where a first-time adopter does present consolidated financial statements, it is not required to eliminate all balances, transactions, revenue and expenses between entities within the economic entity during the transition period. Similarly, an investor is not required to eliminate its share in the surplus and deficit resulting from upstream and downstream transactions between the investor and its associate or joint venture during the transition period.

IPSAS 33 – Exemptions not affecting Fair Presentation and Compliance

- Using fair value as deemed cost to measure assets and/or liabilities
  - Inventory
  - Investment property (historical cost model used)
  - Right-of-use assets
  - Intangible assets (subject to conditions)
  - Financial instruments
  - Service concession assets
- Only where acquisition cost not available
- Deemed cost (fair value or current operational value) for PPE
- Comparative information and historical summaries (financial statements)
- Effects of changes in foreign exchange rates
- Borrowing costs
- Leases
- Segment reporting
- Impairment
- Employee benefits
- Financial instruments
- Intangible assets
- Service concession arrangements
- Interest in other entities
- Social Benefits

A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:

a) Inventory (see IPSAS 12);

b) Investment property, if the first-time adopter elects to use the historical cost model in IPSAS 16;

c) Right-of-use assets (see IPSAS 43);

d) Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:

   (i) The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and

   (ii) The criteria in IPSAS 31 for revaluation (including the existence of an active market);

e) Financial Instruments (see IPSAS 41); or

f) Service concession assets (see IPSAS 32).

The use of fair value as deemed cost is only permitted where the acquisition cost of the asset and/or the liability is not available. Deemed cost assumes that the entity had initially recognized the asset and/or the liability at the given date. Subsequent depreciation or amortization is based on that deemed cost on the premise that the acquisition cost is equal to the deemed cost. For example, a first-time adopter may elect to measure investment property at deemed cost at the date of adoption of IPSAS because cost information about the item of investment property was not available on that date, and use fair value as its deemed cost at that date. Any subsequent depreciation is based on the fair value determined at that date and starts from the date that the deemed cost has been determined.

The use of deemed cost is not considered a revaluation or the application of the current value model for subsequent measurement in accordance with other IPSAS.

A first-time adopter may elect to measure property, plant and equipment at deemed cost, which could be either current operational value or fair value. The first time adopter may use the revaluation amount of the property, plant and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:

a) Fair value (when the property, plant and equipment is held for its financial capacity); or

b) Current operational value (when the property, plant and equipment is held for its operational calacity).

IPSAS 46, *Measurement* provides more details on deemed cost, fair value and current operational value, and guidance on how these should be measured. (see Module 10).

IPSAS 33 provides an exemption regarding the presentation of comparative information. A first-time adopter is not required to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements, although it is encouraged to do so. If a first-time adopted does present comparative information, this information should be presented in accordance with the requirements in IPSAS 1.

IPSAS 33 provides an exemption regarding changes in foreign exchange rates. On the date of adoption of IPSAS a first-time adopter need not comply with the requirements for cumulative translation differences that exist at that date. If a first-time adopter uses this exemption:

a) The cumulative translation differences for all foreign operations are deemed to be zero at the date of adoption of IPSAS; and

b) The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of adoption of IPSAS and shall include later translation differences.

An alternative treatment is permitted where a controlled entity becomes a first-time adopter later than its controlling entity and choses to measure its assets and liabilities at the amount that would be included in the controlling entity’s consolidated financial statements (ignoring consolidation adjustments). Such an entity may measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the controlling entity’s consolidated financial statements (again ignoring consolidation adjustments). This treatment is also available to an associate or joint venture in the same position.

IPSAS 33 provides an exemption regarding borrowing costs. This is in addition to the exemption that affects fair presentation and compliance which was discussed earlier. If a first-time adopter takes advantage of this second exemption, it is not required to apply the requirements of IPSAS 5 retrospectively. The first-time adopter is allowed to designate any date before the date of adoption of IPSAS and apply IPSAS 5 prospectively on or after that designated date.

IPSAS 33 provides an exemption regarding leases. This is in addition to the exemption that affects fair presentation and compliance which was discussed earlier. A first-time adopter that is a lessee should classify all existing leases as operating or finance leases on the basis of circumstances existing at the inception of the lease, to the extent that these are known on the date of adoption of IPSAS. The first-time adopter may assess whether a contract that exists at the date of adoption of IPSAS contains a lease by applying IPSAS 43 as at that date.

A first-time adopter that is a lessee will need to recognize right of use assets and lease liabilities. The following approach may be followed:

a) Measure a lease liability at the date of adoption of IPSAS at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate;

b) Measure a right-of-use asset at the date of adoption of IPSAS. The lessee can choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

   (i) Its carrying amount as if IPSAS 43 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of adoption of IPSAS; or

   (ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of adoption of IPSAS.

c) Consider whether the right-of-use asset should be impaired by applying IPSAS 21 or IPSAS 26.

However, a first-time adopter that is a lessee will need to measure the right-of-use asset at fair value at the date of adoption of IPSASs for leases that meet the definition of investment property in IPSAS 16 and are measured using the current value model in IPSAS 16 from the date of adoption of IPSAS.

IPSAS 33 includes further simplifications that a first-time adopter that is a lessee may choose to use. These simplifications may be applied on a lease-by-lease basis:

a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

b) Elect not to apply the treatment set out above to leases for which the lease term ends within 12 months of the date of adoption of IPSASs. Instead, the entity may account for these leases as if they were short-term leases (see IPSAS 43, covered in Module 2).

c) Elect not to apply the treatment set out above to leases for which the underlying asset is of low value. Instead, the entity may account for these leases as low value leases (see IPSAS 43, covered in Module 2).

d) Exclude initial direct costs from the measurement of the right-of-use asset at the date of adoption of IPSAS.

e) Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

IPSAS 33 provides an exemption regarding segment reporting. A first-time adopter is not required to present segment information for reporting periods beginning on a date within three years following the date of adoption of IPSAS.

IPSAS 33 provides an exemption regarding impairments. A first-time adopter applies the impairment requirements in IPSAS 21 and 26 prospectively from the date of adoption of IPSAS. This applies to those assets recognized and measured in accordance with IPSAS at that date. Other assets may not be recognized and measured in accordance with IPSAS at that date because the first-time adopter has taken advantage of exemptions allowing assets not to be recognized during the transition period. These assets are assessed for impairment at the point at which they are recognized or measured in accordance with IPSAS.

IPSAS 33 provides an exemption regarding employee benefits, specifically defined benefit plans and other long-term employee benefits. For these items, if the initial liability recognized and measured under IPSAS is more or less than the liability that was recognized and measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter recognizes the difference in the opening accumulated surplus or deficit.

The difference is recognized in the period in which the items are recognized and/or measured, which may be at the date of adoption of IPSAS, or a later date if the first-time adopter has relied on the transitional relief (discussed earlier in this module) which allows it not to recognize the assets and liabilities for up to three years.

A first-time adopter recognizes all cumulative remeasurements in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

IPSAS 33 provides various exemptions regarding financial instruments.:

- A first-time adopter needs to evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net asset/equity component. However, IPSAS 33 allows a first-time adopter to not separate these two portions if the liability component is no longer outstanding at the date of adoption of IPSAS.
- A first-time adopter may designate financial instruments as at fair value through surplus or deficit– provided the criteria for designation are met–at the date of adoption of IPSAS (rather than on initial recognition).
- A first-time adopter may designate an investment in an equity instrument as at fair value through net assets/equity.
- A first-time adopter applies the derecognition requirements in respect of financial instruments prospectively from the date of adoption of IPSAS (or once the financial instruments have been recognized if the first-time adopter relies on the transitional arrangements described earlier in this module). However, first-time adopter may apply the derecognition requirements retrospectively from a date of their choosing, provided that the information needed was obtained at the time of initially accounting for these transactions.
- If a first-time adopter designated a net position as a hedged item in accordance with its previous basis of accounting, it may designate an individual item within that net position (or a net position if that meets the requirements in IPSAS 41) as a hedged item in accordance with IPSAS, provided that it does so no later than the date of adoption of IPSAS (or once the financial instruments have been recognized if the first-time adopter relies on the transitional arrangements described earlier in this module).
- However, if a first-time adopter had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IPSAS, the first-time adopter applies IPSAS 41 to discontinue hedge accounting.
- A first-time adopter assesses whether a financial asset meets the conditions in to be measured at amortized cost or at fair value through net assets/equity on the basis of the facts and circumstances that exist at the date of adoption of IPSAS.
- If it is impracticable to assess a modified time value of money element on the basis of the facts and circumstances that exist at the date of transition to IPSAS, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of adoption of IPSAS without taking into account the requirements related to the modification of the time value of money element.
- If it is impracticable to assess whether the fair value of a prepayment feature is insignificant on the basis of the facts and circumstances that exist at the date of transition to IPSAS, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of adoption of IPSAS without taking into account the exception for prepayment features in IPSAS 41.
- If it is impracticable for an entity to apply retrospectively the effective interest method, the fair value of the financial asset or the financial liability at the date of adoption of IPSAS shall be the new gross carrying amount of that financial asset or the new amortized cost of that financial liability at the date of adoption of IPSAS.

- A first-time adopter applies the requirements regarding the impairment of financial instruments prospectively from the date of adoption of IPSAS (or once the financial instruments have been recognized if the first-time adopter relies on the transitional arrangements described earlier in this module). At the point that the financial instruments are recognized and measured in accordance with IPSAS, the first-time adopter assesses whether there is any indication that the financial instrument is impaired. Any impairment loss incurred is recognized in opening accumulated surplus or deficit for the period.
- A first-time adopter uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognized and compares that to the credit risk at the date of adoption of IPSAS.
- When determining whether there has been a significant increase in credit risk since initial recognition, a first-time adopter may apply the assumption that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date; and the rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.
- If, at the date of adoption of IPSAS, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, a first-time adopter recognizes a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognized.
- Where the first-time adopter elects to present comparative information in its transitional IPSAS financial statements or its first IPSAS financial statements, it is not required to present information about the nature and extent of risks arising from financial instruments for the comparative period. The disclosure requirements in IPSAS 30 are applied prospectively from the date of adoption of IPSAS (or once the financial instruments have been recognized if the first-time adopter relies on the transitional arrangements described earlier in this module).

IPSAS 33 provides an exemption regarding intangible assets. A first-time adopter can recognize and/or measure an internally generated intangible asset if it meets both the definition of an intangible asset and the recognition criteria, even if the first-time adopter has, under its previous basis of accounting, expensed such costs. A deemed cost may not be determined for internally generated intangible assets.

IPSAS 33 provides an exemption regarding service concession arrangements. Where a first-time adopter elects to measure service concession assets using deemed cost, the related liabilities are measured using:

a) The remaining contractual cash flows specified in the binding arrangement and the rate prescribed (financial liability model); or

b) The fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement (grant of a right to the operator model).

Any difference between the value of the service concession asset and the financial liability under the financial liability model is recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

IPSAS 33 provides exemptions for those circumstances where a controlled entity and its controlling entity become first-time adopters at different times.

IPSAS 33 also provides further exemptions regarding interests in other entities.

A first-time adopter that is a controlled entity assesses whether it is an investment entity on the basis of the facts and circumstances that exist at the date of adoption of accrual basis IPSAS.

Where a first-time adopter accounted for its investment in a joint venture under its previous basis of accounting basis using proportionate consolidation, the investment in the joint venture is measured on the date of adoption as the aggregate of the carrying amount of the assets and liabilities that the entity previously proportionately consolidated.

This is regarded as the deemed cost of the investment at initial recognition. A first-time adopter tests the investment for impairment as at the date of adoption. If the aggregate of the carrying amounts results in negative net assets, the first-time adopter assesses whether it has legal or constructive obligations in relation to the negative net assets and, if so, recognizes a corresponding liability. If the first-time adopter concludes that it does not have legal or constructive obligations in relation to the negative net assets, it adjusts accumulated surplus or deficit at the date of adoption.

IPSAS 33 provides exemptions in respect of social benefits. This is in addition to the exemption that affects fair presentation and compliance which was discussed earlier. A first-time adopter shall determine its initial liability for a social benefit scheme at the date of adoption of IPSAS (or at the date during the period of transition when social benefits are recognized after the date of adoption of IPSAS) in accordance with IPSAS 42, *Social Benefits*.

If this initial liability is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, a first-time adopter recognizes that increase/decrease in the opening accumulated surplus or deficit in the period in which the social benefits are recognized and/or measured.

IPSAS 33 - Disclosures

- Information for users of the transitional financial statements
- Disclosures during the transition period:
  - Explanation of transition to IPSAS
  - Reconciliations
  - Disclosures where deemed cost is used
  - Exemptions from disclosures in IPSAS.

IPSAS 33 includes disclosure requirements. These are intended to provide information that is useful for the users of the transitional IPSAS financial statements in assessing those financial statements and the first-time adopter's progress in transitioning to accrual basis IPSAS. In particular, the disclosures include

- An explanation of the transition to IPSAS (including information about how the transition from the previous basis of accounting to IPSAS affected its reported financial position).
- Reconciliations of the amounts reported in accordance with its previous basis of accounting and the opening balances reported at the date of adoption of IPSAS.
- Disclosures explaining how the first-time adopter has used deemed cost.

Where a first-time adopter has taken advantage of an exemption and so has not recognized and/or measured items in accordance with IPSAS, it is not required to apply any associated presentation and disclosure requirements until such time as it recognizes and measures those items in accordance with IPSAS. For example, if a first-time adopter does not recognize and measure property, plant and equipment in its first transitional IPSAS financial statements, it is not required to present line items relating to property, plant and equipment in those financial statements, nor to include any disclosures relating to property, plant and equipment.

IPSAS 33 – Comprehensive Coverage

- IPSAS 33 lists all applicable exemptions
- Comprehensive coverage of transition issues
- IPSAS 33 is a "one-stop shop"
- Helpful because everything gathered together in one place

IPSAS 33 was issued in 2015 and provides, for the first time, comprehensive coverage of all the IPSAS requirements in relation to first-time adoption of accrual basis IPSAS. By gathering all the requirements together in one place, it helps preparers as they consider how to transition to accrual basis IPSAS.

Useful information for first-time adoption

- Pathways to Accrual
  - Guidance for governments and government entities
  - Practically oriented ("How to do it")
  - Includes suggestions on project management
  - Non-authoritative (Not an IPSAS)
- Case Studies on IPSASB web site
  - Costa Rica
  - Guatemala
  - Malta
  - Malaysia
  - Panama
  - Switzerland

The IPSASB web site includes information that will be useful for those adopting accrual basis IPSAS. The resources available include Pathways to Accrual, which provides practical guidance on the transition process, and case studies of some countries that have adopted accrual basis IPSAS or are in the process of doing so. In addition to the case studies listed above, a number of videos are available covering a wider range of countries.

Practical Issues

The second section of this module incorporates a discussion of the practical issues to be addressed in transitioning to the accrual basis IPSAS. The following information is intended to provide a starting point for those discussions.

Challenges

- Need to make cultural and mind-set changes – from using cash basis to accrual basis
- Overcome resistance to change
- Integration of information technology systems
- Integration of departmental and accounting records
- Developing asset registers – property, plant and equipment including infrastructure assets
- Consolidations

Critical Success Factors

- Strong political support at the highest level of elected officials
- Commitment to implementation from senior appointed officials
- Initial budget, project planning and gap analysis
- Identify needs—information systems, training, legislation, external support, project budget
- Staff open to training and will accept an accrual accounting perspective
- Recognition that reform is for enhanced financial management not merely a book-keeping exercise

Lessons

- IPSAS adoption should be treated as an integrated whole and as a country priority
- Active support at top (political and managerial) across government, including "IPSAS champion"
- Need a comprehensive implementation plan with realistic times, flexibility and permission to modify
- Effective project manager and project team
- Effective use of limited resources
- Effective "learn-do" theory and practice
- Effective communication strategy
- Information technology systems reform an integrated part from beginning
- Effective training on meaning and use of accrual information
- Need to move away from day-to-day activities – retreat and workshops
- Tackle asset inventory early – don't leave it to the end
- Not necessary to go to IPSAS cash first (some governments have found this beneficial)

Risk Approach

- Risk Analysis – Impact and Likelihood
- Concentrate on High Impact, High Likelihood
- Low Impact – Material?
- Low Likelihood - Limited Review?

People

- Change Management Project
- Project Group
- Communications
  - Sell Benefits
- Finance Teams
- Other Staff
  - Managers / Budget Holders
  - Information Providers
- Training

Political Support

- Project
  - Leadership
  - Legislation
- Resources
- Example Issues
  - Assets Identified
  - Aged Bad Debts
  - Credit Rating Agencies

Practical Issues: Current Assets

Item	Cash Basis	Source of Information
Cash and Cash Equivalents	Confirm includes cash equivalents	Policy on Cash Equivalents Investment Records
Receivables (Exchange / Non-Exchange)	Not included	Debtors Records Measurement? Current / Long Term Split?
Current Portion of Long-Term Receivables	Not included	Debtors Records Measurement? Current / Long Term Split?
Inventory	Not included	Inventory Records? Measurement?

Practical Issues: Non-Current Assets

Item	Cash Basis	Source of Information
Property, Plant, and Equipment	Not included	Asset Register? Utility Bills Property Tax Records
Intangible Assets	Not included	Inventory Records *Unlikely to have information re internally generated intangible assets*
Right-of-Use Assets (Leases)	Not included	Asset Register? Lease Contracts Lease Payment Schedules
Long-Term Receivables	Not included	Debtors Records Measurement? Current / Long Term Split?
Investments	Not included	Investment Records? Measurement?` Current / Long Term Split?`

Practical Issues: Current Liabilities

Item	Cash Basis	Source of Information
Trade and Other Payables	Not included	Creditors Records Measurement? Current / Long Term Split?
Provisions	Not included	Processes for Identification? Legal Teams Managers
Borrowing	Not included	Borrowing Records Measurement? Current / Long Term Split?
Employee Benefits (Current)	Not included	HR Systems Actuaries? Sampling (e.g., accumulated leave)

Practical Issues: Non-Current Liabilities

Item	Cash Basis	Source of Information
Employee Benefits (Non-Current)	Not included	HR Systems Actuaries (Especially Defined Contribution Pensions)
Leases	Not included	Processes for Identification? Legal Records? Property Records? Classification & Measurement
Long-Term Borrowing	Not included	Borrowing Records Measurement? Current / Long Term Split?
Service Concession Arrangements	Not included	Contracts Classification & Measurement

Practical Issues: Net Assets / Equity

Item	Cash Basis	Source of Information
Reserves	Not included	Records of Decisions • Ministerial • Administrative
Accumulated Surplus Or Deficit	Balance; will not include all adjustments for accrual items	Adjustments via Accumulated Surplus or Deficit Can be Calculated by Difference

Adjustments through Accumulated Surplus or Deficit

Property, Plant and Equipment	**105,250**
Cash at Bank	**10,350**
Total Assets	**115,600**
Loans	**(104,500)**
Total Liabilities	**(104,500)**
Accumulated Surplus/Deficit	**11,100**

Discussion and Questions

That concludes our introduction to first-time adoption of accrual basis IPSAS.

Participants should refer to the review questions to test themselves on their knowledge.

Visit the IPSASB webpage:

http://www.ipsasb.org

Review Questions

Question 1

In which circumstances should an entity prepare transitional IPSAS financial statements? Why?

Question 2

Which (if any) of the following exemptions provided by IPSAS 33 do NOT affect fair presentation and compliance?

a) Three-year exemption for recognizing and/or measuring property, plant, and equipment

b) Use of deemed cost to measure property, plant, and equipment

c) Three-year exemption for recognizing and measuring non-exchange revenue

d) Exemption from presenting comparative information in first financial statements

e) Related party disclosures

Answers to Review Questions

Question 1

An entity should prepare transitional IPSAS financial statements where it is taking advantage of some or all of the exemptions provided by IPSAS 33 that affect fair presentation and compliance.

An entity’s first IPSAS financial statements need to fairly present the financial position, financial performance, and cash flows of the entity. This will not be the case where an entity is using the exemptions provided by IPSAS 33 that affect the fair presentation of the financial statements and the entity’s ability to assert compliance with accrual basis IPSAS.

Until such time as the first-time adopter is able to assert compliance with accrual basis IPSAS, the first-time adopter should prepare transitional IPSAS financial statements. A first-time adopter can claim full compliance with IPSAS only when it has complied with all the requirements of the applicable IPSAS effective at that date (with the exception of those exemptions permitted by IPSAS 33 that do not affect fair presentation and compliance).

Question 2

The answer is (b) and (d).

The exemptions from recognizing and measuring property, plant, and equipment and non-exchange revenue will prevent an entity from fairly presenting its financial position, financial performance and/or cash flows. The disclosure of related party information is necessary for users to fully understand the financial statements. These exemptions therefore affect fair presentation and compliance.