Exposure Draft 91

August 2024

Comments due: December 13, 2024

IPSAS®

Proposed International Public Sector Accounting Standard ®

Limited-scope Updates to *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (Amendments to IPSAS 33)

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 (ED) 91, *Limited-scope Updates of First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (Amendments to IPSAS 33), 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 13, 2024.**

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. Comments must be received in English to be considered. 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 English.

Objective of this Exposure Draft

The objective of this ED is to amend IPSAS 33 by restructuring the existing authoritative guidance into a more understandable and user-friendly structure, promote the election of exemptions to apply IPSAS incrementally and as soon as possible, and add a substantial amount of new non-authoritative guidance to better support first-time adopters in using IPSAS 33. The ED does not propose any changes to the objective, scope, or available exemptions in IPSAS 33.

Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this 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.

To assist respondents in considering and responding to this ED, the IPSASB provides the following Supplemental Material:

(a) A marked-up version of IPSAS 33, showing all amendments; and

(b) A Table of Concordance to detail changes made to IPSAS 33.

The Specific Matters for Comment requested for the ED are provided below.

Specific Matter for Comment 1:

The IPSASB agreed to undertake this limited scope project to address stakeholder concerns in the application of IPSAS 33, to improve its effectiveness and user-friendliness. In response, the IPSASB propose to amend IPSAS 33 as follows:

(a) To revise authoritative text and Basis for Conclusions by rearranging the guidance by topic;

(b) To revise guidance to improve understandability and reduce duplication;

(c) To revise relevant guidance to encourage the first-time adopter to apply IPSAS incrementally and as soon as possible by emphasizing the choice to elect to apply or not apply the available exemptions;

(d) To add non-authoritative guidance (particularly under implementation guidance) to support the understanding and application of IPSAS 33; and

(e) To add non-authoritative guidance on the pre-adoption planning and preparation phase of the transition to accrual basis IPSAS.

Do you agree with the proposed amendments? If not, please explain your reasons.

Specific Matter for Comment 2:

The definition of "deemed cost" was previously deleted from the IPSAS 33 as a consequential amendment through IPSAS 46, *Measurement*. The IPSASB agreed that the definition of "deemed cost" is important for the understanding of the exemptions in the Standard relating to the use of deemed cost, and therefore propose to include a copy of the IPSAS 46 definition of deemed cost in IPSAS 33.

Do you agree with the inclusion of the definition of "deemed cost"? If not, please explain your reasons.

Exposure Draft 91, *Limited-scope Updates to First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (Amendments to IPSAS 33)

CONTENTS

Objective

1. The objective of this Standard is to ensure that an entity's International Public Sector Accounting Standards (IPSAS) financial statements contain high-quality information that:

   (a) Is transparent for accountability and decision-making purposes;

   (b) Provides a suitable starting point for accounting in accordance with accrual basis IPSAS; and

   (c) Provides benefits that are expected to exceed the costs.

Scope

2. A first-time adopter shall apply this Standard from the date on which it adopts accrual basis IPSAS and prepares and presents its first financial statements after the date of adoption of IPSAS.

3. This Standard does not apply when, for example, a first-time adopter:

   (a) Stops presenting financial statements in accordance with prescribed requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with accrual basis IPSAS;

   (b) Presented financial statements in the previous reporting period in accordance with prescribed requirements and those financial statements contained an explicit and unreserved statement of compliance with accrual basis IPSAS; or

   (c) Presented financial statements in the previous reporting period that contained an explicit and unreserved statement of compliance with accrual basis IPSAS, even if the auditors modified their audit report on those financial statements.

4. This Standard does not apply to changes in accounting policies made by an entity that already applies IPSAS. Such changes are the subject of:

   (a) Requirements on changes in accounting policies in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and

   (b) Specific transitional requirements in other IPSAS. The transitional provisions in other IPSAS apply only to changes in accounting policies made by an entity that already applies accrual basis IPSAS; they do not apply to a first-time adopter's transition to IPSAS, except as specified in this Standard.

5. This Standard permits a first-time adopter to apply transitional exemptions and provisions, for a transition period of up to three years, that may impact fair presentation (see paragraph AG19) during the transition period. Where these transitional exemptions and provisions are applied, a first-time adopter is required to disclose information about the transitional exemptions and provisions adopted, and progress towards fair presentation and compliance with accrual basis IPSAS (see paragraph 23).

6. The first-time adopter will not be able to make an explicit and unreserved statement of compliance with accrual basis IPSAS until the exemptions that provided the relief in this Standard, that affect the fair presentation of the financial statements, have expired and/or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with applicable IPSAS (whichever is earlier).

7. At the end of the transition period a first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSAS in order to assert compliance with accrual basis IPSAS as required in IPSAS 1, *Presentation of Financial Statements*. Until such time, financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of all the applicable IPSAS.

Definitions

8. **The following terms are used in this [draft] Standard with the meanings specified:**

<u>Date of adoption of IPSAS</u> 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, where the transitional exemptions are not used, its first IPSAS financial statements.

<u>Deemed cost</u> is an amount used as a surrogate for transaction price at the measurement date.

<u>First IPSAS financial statements</u> are the first financial statements that fairly present transactions and balances for the reporting period in compliance with the accrual basis IPSAS, and for which an entity can make an explicit and unreserved statement of compliance with those IPSAS.

<u>First-time adopter</u> is an entity that adopts accrual basis IPSAS for the first time.

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

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

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

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

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

9. Fair presentation and compliance with accrual basis IPSAS will be affected where the first-time adopter elects to apply any or all of the exemptions and provisions in paragraph AG4 during the transition period, and in the judgment of the first-time adopter, the recognition and/or measurement of the item, transaction or event that are exempted is material in relation to the financial statements as a whole. A first-time adopter shall not apply the exemptions in paragraph AG4 by analogy to any other items which are not specifically referred to in paragraph AG4.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS

10. Fair presentation and compliance with accrual basis IPSAS will not be affected where the first-time adopter elects to apply any or all of the exemptions and provisions in paragraph AG5 during the transition period. A first-time adopter shall not apply the exemptions in paragraph AG5 by analogy to any other items which are not specifically referred to in paragraph AG5.

Recognition and Measurement

Opening Statement of Financial Position at the Date of Adoption of IPSAS

11. A first-time adopter shall 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.

Accounting Policies

12. On the date of adoption of IPSAS, a first-time adopter shall apply the requirements of IPSAS retrospectively except if otherwise required or permitted in this Standard.

13. A first-time adopter shall use the same accounting policies in its opening statement of financial position and throughout all periods presented, except as specified in paragraphs AG10–AG127.

14. A first-time adopter that elects to apply the exemptions in paragraphs AG10–AG127 will be required to amend its accounting policies after the exemptions that provided the relief have expired and/or when the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier).

15. A first-time adopter shall apply the versions of accrual basis IPSAS effective at the date of adoption of IPSAS. A first-time adopter may apply a new IPSAS that is not yet mandatory if that IPSAS permits early application. Any new IPSAS that becomes effective during the transition period shall be applied by the first-time adopter from the date it becomes effective.

16. The transitional exemptions and provisions in other IPSAS apply to changes in accounting policies made by an entity that already applies accrual basis IPSAS. The transitional exemptions and provisions in this IPSAS apply to a first-time adopter that prepares and presents its annual financial statements on the adoption of, and during the transition to, IPSAS.

Exceptions to the Retrospective Application of IPSAS

17. This Standard prohibits retrospective application of some aspects of other IPSAS. These exceptions are set out in paragraphs 18–21.

Estimates

18. A first-time adopter's estimates in accordance with IPSAS at the date of adoption of IPSAS shall be consistent with estimates made for the same date in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were made in error.

19. 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. A first-time adopter shall treat the receipt of that information in the same way as non-adjusting events after the reporting date in accordance with IPSAS 14, *Events after the Reporting Date*.

20. A first-time adopter may need to make estimates in accordance with IPSAS at the date of adoption of IPSAS or during the transition period that were not required at that date under the previous basis of accounting. To achieve consistency with IPSAS 14, those estimates in accordance with IPSAS shall reflect conditions that existed at the date of adoption of IPSAS or at a date during the transition period. In particular, estimates determined at the date of adoption of IPSAS or during the transition period of market prices, interest rates or foreign exchange rates shall 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 a date during the transition period.

21. Paragraphs 18–20 apply to the opening statement of financial position. Paragraphs 18–20 also apply to a comparative period where a first-time adopter elects to present comparative information in accordance with paragraph AG11, in which case the references to the date of adoption of IPSAS are replaced by references to the end of that comparative period.

Presentation and Disclosure~~s~~

22. This Standard does not provide exemptions from the presentation and disclosure requirements in other IPSAS except where permitted (see paragraph AG124).

Explanation of Transition to IPSAS

23. A first-time adopter shall disclose:

    (a) The date of adoption of IPSAS; and

    (b) Information and explanations about how the transition from the previous basis of accounting to IPSAS affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.

Disclosures on the Use of IPSAS 33

24. **Where a first-time adopter elects to apply the exemptions in this Standard, the first-time adopter shall disclose:**

    (a) The extent to which it has elected to apply the exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS; and/or

    (b) The extent to which it has taken advantage of the transitional exemptions that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.

25. **To the extent that a first-time adopter has taken advantage of the transitional exemptions and provisions in this Standard that affect fair presentation of the financial statements and compliance with accrual basis IPSAS in relation to assets, liabilities, revenue and/or expenses, it shall disclose:**

(a) An explicit and unreserved statement of compliance with this Standard, accompanied by a statement that the financial statements do not fully comply with accrual basis IPSAS;

(b) Progress made towards recognizing, measuring, presenting and/or disclosing assets, liabilities revenue and/or expenses in accordance with the requirements of the applicable IPSAS;

(c) The assets, liabilities, revenue and/or expenses that have been recognized and measured under an accounting policy that is not consistent with the requirements of applicable IPSAS;

(d) The assets, liabilities, revenue and/or expenses that have not been measured, presented and/or disclosed in the previous reporting period, but which are now recognized and/or measured, and/or presented and/or disclosed;

(e) The nature and amount of any adjustments recognized during the reporting period; and

(f) An indication of how and by when it intends to comply in full with the requirements of the applicable IPSAS.

26. **Where a first-time adopter elects to apply the exemption not to eliminate some inter-entity balances, transactions, revenue and expenses, and/or where a first-time adopter applies the transition period for the recognition and/or measurement of its interest in controlled entities, associates or joint ventures, it shall disclose the nature of the balances, transactions, revenue and expenses and/or upstream or downstream transactions that have been eliminated during the reporting period.**

27. **Where a first-time adopter is not able to present consolidated financial statements because of the transitional exemptions and provisions adopted in paragraphs AG41 or AG44, it shall disclose:**

(a) The reason why the financial statements, investments in associates or interests in joint ventures could not be presented as consolidated financial statements; and

(b) An indication by when the first-time adopter will be able to present consolidated financial statements.

Reconciliations

28. **A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present the reconciliations required in paragraph 29.**

29. **A first-time adopter shall present in the notes to its first transitional IPSAS financial statements or its first IPSAS financial statements:**

(a) A reconciliation of its balance of net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSAS; and

(b) A reconciliation of its accumulated surplus or deficit in accordance with its previous basis of accounting to its accumulated surplus or deficit at the date of adoption of IPSAS.

30. The reconciliation presented in accordance with paragraph 29 shall provide sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the opening statement of financial position and, where applicable, the restated comparative statement of financial performance presented in accordance with accrual basis IPSAS. Where narrative explanations are included in other public documents issued in conjunction with the financial statements, a cross reference to those documents shall be included in the notes.

31. If an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required by paragraph 35 shall distinguish the correction of those errors from changes in accounting policies.

32. **If an entity did not present financial statements for previous periods, its transitional IPSAS financial statements or its first IPSAS financial statements shall disclose that fact.**

33. **Where a first-time adopter elects to apply the exemptions which allow a transition period not to recognize and/or measure items, it shall present as part of the notes, a reconciliation of items that have been recognized and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation shall be presented in each period when new items are recognized and/or measured in accordance with this Standard.**

34. The reconciliation presented in accordance with paragraph 33 shall provide sufficient detail to enable users to understand which items have been recognized and/or measured during the reporting period where the first-time adopter applies one or more of the exemptions that provide a transition period not to recognize and/or measure an item. The reconciliation shall explain the adjustments to the previously reported statement of financial position and, where applicable, the previously reported statement of financial performance in each period when new items are recognized and/or measured in accordance with this Standard.

Transitional Provisions in Other IPSAS

35. **Where a first-time adopter has adopted the existing transitional provisions in other accrual basis IPSAS, it shall continue to apply those transitional provisions until they expire and/or the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). If the first-time adopter elects to apply the transitional exemptions in this Standard, the transition period applied in adopting accrual basis IPSAS shall not be longer than three years.**

Effective Date

36. **A first-time adopter shall apply this Standard if its first IPSAS financial statements or its first transitional financial statements are for a period beginning on or after [Month Day], [Year]. Earlier application is permitted.**

Withdrawal of IPSAS 33 (issued 2015)

37. This Standard supersedes IPSAS 33 (issued in 2015 as subsequently amended).

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 91).

Objective

AG1. The objective of this Standard is to provide guidance to a first-time adopter of accrual basis IPSAS, irrespective of the basis of accounting the adopter has used prior to the date of adoption of IPSAS.

Scope

AG2. This Standard permits a first-time adopter to apply transitional exemptions and provisions (refer to paragraph AG4 and AG5) for a transition period after the date of adoption of IPSAS. The objective of those exemptions that affect fair presentation and compliance with accrual basis IPSAS is to allow a first-time adopter a transition period to develop reliable models and/or other procedures for recognizing and/or measuring items in accordance with accrual basis IPSAS. This Standard does not apply to the period prior to the date of adoption of IPSAS, or the period following the end of the transition period.

AG3. In developing reliable models and/or other procedures, a first-time adopter shall apply the guidance in IPSAS 46, *Measurement* when measuring assets and/or liabilities.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph 9)

AG4. A first-time adopter may elect to apply the exemptions in the following paragraphs:

(a) General Principles (refer to paragraph AG19);

(b) Accounting Boundaries (refer to paragraphs AG37–AG48);

(c) Non-Financial Assets (refer to paragraphs AG55–AG59);

(d) Financial Assets and Liabilities (refer to paragraphs AG78–AG80);

(e) Revenue and Transfer Expenses (refer to paragraphs AG103–AG105); and

(f) Other Expenses and Non-Financial Liabilities (refer to paragraphs AG107–AG109).

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph 10)

AG5. A first-time adopter may elect to apply the exemptions in the following paragraphs, without affecting fair-presentation or compliance with accrual basis IPSAS:

(a) Financial Statements (refer to paragraphs AG11–AG16);

(b) General Principles (refer to paragraphs AG20–AG35);

(c) Accounting Boundaries (refer to paragraphs AG51–AG53);

(d) Non-Financial Assets (refer to paragraphs AG60–AG76);

(e) Financial Assets and Liabilities (refer to paragraphs AG82–AG100);

(f) Other Expenses and Non-Financial Liabilities (refer to paragraphs AG110–AG123); and

(g) Disclosures and Other Standards (refer to paragraphs AG126–AG127).

Definitions

AG6. The date of adoption of IPSAS is the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS and for which it presents its first transitional IPSAS financial statements or, where the transition exemptions are not used, its first IPSAS financial statements.

AG7. The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSAS. Prescribed bases might be a cash basis of accounting, an accrual basis of accounting, a modified version of either a cash basis or an accrual basis of accounting, or another prescribed basis.

AG8. The transition period is the period during which a first-time adopter can elect to apply exemptions described in paragraphs AG10–AG127. The transition period is limited to three years but can be shorter if the first-time adopter is able to apply accrual basis IPSAS in a period of less than three years. During the transition period, a first-time adopter may apply one or more of the exemptions in this Standard that do and/or do not affect fair presentation and compliance with accrual basis IPSAS. Where exemptions are applied that affect fair presentation and compliance with accrual basis IPSAS, the first-time adopter will still be in the transition period. When the first-time adopter complies with the accrual basis IPSAS in full, and is able to make an explicit and unreserved statement of such compliance with IPSAS, the transition period will come to an end at that date.

AG9. Except as described in paragraphs AG10–AG127, a first-time adopter shall, in its opening statement of financial position:

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

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

(c) Reclassify 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) Apply IPSAS in measuring all recognized assets and liabilities.

Financial Statements (refer to paragraph AG5(a))

AG10. The following Standards are relevant:

(a) IPSAS 1, *Presentation of Financial Statements*;

(b) IPSAS 2, *Cash Flow Statements*;

(c) IPSAS 22, *Disclosure of Financial Information about the General Government Sector*; and

(d) IPSAS 24, *Presentation of Budget Information in Financial Statements*.

The following paragraphs provide more detail on any exemptions that apply to these Standards.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG5(a))

IPSAS 1

Comparative Information

AG11. A first-time adopter may elect not to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this Standard. Where a first-time adopter elects to present comparative information, it shall be presented in accordance with the requirements of IPSAS 1 and, where appropriate, with the requirements of paragraph 29 of this Standard.

AG12. Where a first-time adopter elects to present comparative information, the first transitional IPSAS financial statements or the first IPSAS financial statements presented in accordance with this Standard shall include:

(a) One statement of financial position with comparative information for the preceding period, and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of IPSAS;

(b) One statement of financial performance with comparative information for the preceding period;

(c) One statement of changes in net assets/equity with comparative information for the preceding period;

(d) One cash flow statement with comparative information for the preceding period;

(e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and

(f) Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 29.

AG13. Where a first-time adopter elects not to present comparative information, its first transitional IPSAS financial statements following the adoption of accrual basis IPSAS or its first IPSAS financial statements presented in accordance with this Standard shall include:

(a) One statement of financial position, and an opening statement of financial position at the date of adoption of IPSAS;

(b) One statement of financial performance;

(c) One statement of changes in net assets/equity;

(d) One cash flow statement;

(e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and

(f) Related notes and the disclosure of narrative information about material adjustments as required by paragraph 29.

AG14. IPSAS 1 requires an entity to present comparative information in respect of the previous period for all amounts reported in the financial statements. Where a first-time adopter elects to apply any of the exemptions which allow a transition period not to recognize and/or measure an item, comparative information for the year following the date of adoption of IPSAS shall be adjusted only when information is available about the items following their recognition and/or measurement during the transition period.

Comparative Information According to Previous Basis of Accounting (Non-IPSAS Comparative Information)

AG15. A first-time adopter may present comparative information in accordance with its previous basis of accounting, but shall label that information as not being prepared in accordance with IPSAS, and disclose the nature of the main adjustments that would be required to comply with IPSAS. The transitional exemptions and provisions provided in this Standard shall not be applied to the non-IPSAS comparative information presented.

Non-IPSAS Historical Summaries

AG16. A first-time adopter may elect to present historical summaries of selected data for periods before the first period for which it presents financial statements in accordance with IPSAS. This Standard does not require such summaries to comply with the recognition and measurement requirements of IPSAS. The first-time adopter shall label the previous basis of accounting information prominently as not being prepared in accordance with IPSAS, and disclose the nature of the main adjustments that would be required to comply with IPSAS. The first-time adopter does not need to quantify those adjustments.

General Principles (refer to paragraphs AG4(a) and AG5(b))

AG17. The following Standards are relevant:

(a) IPSAS 3, *Accounting Polices, Changes in Accounting Estimates, and Errors*;

(b) IPSAS 4, *Effects of Changes in Foreign Exchange Rates*;

(c) IPSAS 10, *Reporting in Hyperinflationary Economies*;

(d) IPSAS 14, *Events after the Reporting Date*; and

(e) IPSAS 46, *Measurement*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

IPSAS 3

AG18. The accounting policies that a first-time adopter uses in financial statements may differ from those that it used at the end of its comparative period under its previous basis of accounting. The resulting adjustments arise from transactions, other events or conditions before the date of adoption of IPSAS. Therefore, a first-time adopter shall recognize those adjustments to the opening balance of accumulated surplus or deficit in the period in which the items are recognized and/or measured (or, if appropriate, another category of net assets/equity).

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG4(a))

AG19. A first-time adopter shall only change its accounting policies during the transition period to better conform to the accounting policies in accrual basis IPSAS, and may retain its existing accounting policies until the exemptions that provided the relief have expired or when the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSAS (whichever is earlier). A first-time adopter may change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities and/or revenue and/or expenses on a class-by-class or category-by-category basis where the use of classes or categories is permitted in the applicable IPSAS.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG5(b))

IPSAS 4

AG20. A first-time adopter may elect not to measure cumulative translation differences that exist at the date of adoption of IPSAS. 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.

AG21. A first-time adopter may elect not to apply Appendix A of IPSAS 4 to assets, revenue and expenses in the scope of that Appendix and that were initially recognized before the date of adoption of IPSAS.

AG22. Instead of applying paragraph AG20, a controlled entity may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of adoption of IPSAS, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity. A similar election is available to an associate or joint venture.

AG23. A first-time adopter shall apply the requirement to treat any goodwill (see IPSAS 40, *Public Sector Combinations*) arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, as assets and liabilities of the foreign operation, prospectively on the date of adoption of IPSAS.

AG24. In applying the transitional exemption in paragraph AG20, a first-time adopter shall not restate prior years for the acquisition of a foreign operation acquired prior to the date of adoption of IPSAS, and accordingly shall, where appropriate, treat goodwill and fair value adjustments arising on acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation.

IPSAS 10

Severe Hyperinflation

AG25. If a first-time adopter has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of adoption of IPSAS.

AG26. The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) A reliable general price index is not available to all entities with transactions and balances in the currency; and

(b) Exchangeability between the currency and a relatively stable foreign currency does not exist.

AG27. The functional currency of a first-time adopter ceases to be subject to severe hyperinflation on the functional currency normalization date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph AG26 or when there is a change in the first-time adopter's functional currency to a currency that is not subject to severe hyperinflation.

AG28. When a first-time adopter's date of adoption of IPSAS is on, or after, the functional currency normalization date, the first-time adopter may elect to measure all assets and liabilities held before the functional currency normalization date at current value at the date of adoption of IPSAS. The first-time adopter may use that current value as the deemed cost of those assets and liabilities in the opening statement of financial position.

IPSAS 46

Use of a Current Value as Deemed Cost

AG29. If a first-time adopter uses a current value measurement basis (i.e., current operational value or fair value) as deemed cost for inventory, investment property, property, plant, and equipment, intangible assets, right-of-use assets, financial instruments, or service concession assets, its financial statements shall disclose:

(a) The aggregate of those current values that were considered in determining deemed cost;

(b) The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and

(c) Whether the deemed cost was determined at the date of adoption of IPSAS or during the transition period.

AG30. If a first-time adopter uses fair value as deemed cost in its opening statement of financial position for an investment in a controlled entity, joint venture or associate in its separate financial statements, its separate financial statements shall disclose:

(a) The aggregate deemed cost of those investments for which deemed cost is fair value; and

(b) The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.

AG31. The disclosure requirements required in paragraphs AG29 and AG30 shall be disclosed in each period when new items are recognized and/or measured until the exemptions that provided the relief have expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

Use of Deemed Cost to Measure Assets Acquired Through a Non-Exchange Transaction

AG32. A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at its current value when reliable cost information about the asset is not available and use that current value as its deemed cost.

Use of Deemed Cost after Severe Hyperinflation

AG33. If a first-time adopter elects to measure assets and liabilities at a current value and to use that current value as the deemed cost in its opening IPSAS Statement of Financial Position because of severe hyperinflation (see paragraph AG25), the first-time adopter's first IPSAS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of these characteristics:

(a) A reliable general price index is not available to all entities with transactions and balances in the currency.

(b) Exchangeability between the currency and a relatively stable foreign currency does not exist.

Date at which Deemed Cost can be Determined

AG34. The date on which deemed cost is determined may vary depending on whether the first-time adopter elects to apply the exemptions not to recognize and/or measure certain assets and/or liabilities. When the first-time adopter elects to apply the exemption, deemed cost can be determined at any date during the transition period, or on the date that the exemption expires (whichever is earlier) and shall be recognized in accordance with paragraph AG35. If a first-time adopter does not elect to apply the exemption, deemed cost shall be determined at the beginning of the earliest period for which the first-time adopter presents IPSAS financial statements.

AG35. When a deemed cost is determined during the transition period, a first-time adopter shall recognize the adjustment against the opening accumulated surplus or deficit in the year in which the deemed cost of the asset and/or liability is recognized and/or measured.

Accounting Boundaries (refer to paragraphs AG4(b) and AG5(c))

AG36. The following Standards are relevant:

(a) IPSAS 34, *Separate Financial Statements*;

(b) IPSAS 35, *Consolidated Financial Statements*;

(c) IPSAS 36, *Investments in Associates and Joint Ventures*;

(d) IPSAS 37, *Joint Arrangements*;

(e) IPSAS 38, *Disclosure of Interests in Other Entities*; and

(f) IPSAS 40, *Public Sector Combination.*

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG4(b))

IPSAS 34

AG37. Where a first-time adopter has not recognized its interests in controlled entities, associates or joint ventures under its previous basis of accounting, it may elect not to recognize and/or measure its interests in other entities as controlled entities, associates or joint ventures during the transition period.

AG38. If the date of adoption of IPSAS for a controlled entity, except for a controlled entity of an investment entity, is later than the date of adoption of IPSAS for its controlling entity, then the controlled entity shall, in its separate financial statements, measure its assets and/or liabilities at either:

(a) The carrying amounts, determined in accordance with this Standard, that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of IPSAS, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity; or

(b) The carrying amounts required by the rest of this Standard, based on the controlled entity's date of adoption of IPSAS.

A similar election is available to an associate or joint venture if the date of adoption of IPSAS for the associate or joint venture is later than the date of adoption of IPSAS for the entity that has significant influence or joint control over it.

AG39. Where a first-time adopter measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may, at the date of adoption of IPSAS, elect to measure that investment at one of the following amounts in its separate opening statement of financial position:

(a) Cost; or

(b) Deemed cost. The deemed cost of such an investment shall be its fair value (determined in accordance with IPSAS 41) at the first-time adopter's date of adoption of IPSAS in its separate financial statements.

AG40. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for an investment in a controlled entity, joint venture or associate by measuring it at its fair value at one particular date because of a specific event. In such instances, a first-time adopter applies paragraph AG39(a) and (b).

IPSAS 35

AG41. Subject to paragraph AG37, a first-time adopter shall present consolidated financial statements following the adoption of accrual basis IPSAS. A first-time adopter presenting consolidated financial statements is, however, not required to eliminate all balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within the transition period.

AG42. At the date of adoption of IPSAS, a first-time adopter may have controlled entities with a significant number of transactions between controlled entities. A first-time adopter may elect to eliminate all balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within the transition period.

AG43. Where a first-time adopter has taken advantage of the transitional exemption in paragraph AG41, it shall not present financial statements as consolidated financial statements until:

(a) The exemptions that provided the relief have expired; and

(b) Its interests in other entities have been appropriately recognized and/or measured as controlled entities, associates or joint ventures; or

(c) Inter-entity balances, transactions, revenue and expenses between entities within the economic entity are eliminated (whichever is earlier).

IPSAS 36

AG44. When a first-time adopter applies the equity method on adoption of IPSAS 36, the first-time adopter may elect not to eliminate its share in the surplus and deficit resulting from upstream and downstream transactions between the first-time adopter and its associate or joint venture for reporting periods beginning on a date within the transitional period.

AG45. Where a first-time adopter has taken advantage of the transitional exemption in paragraph AG37 and/or AG44, it shall not present financial statements in which investments in associates or joint ventures are accounted for using the equity method until:

(a) The exemptions that provided the relief have expired; and

(b) The interest in other entities have been appropriately recognized and/or measured as an associate or joint venture; or

(c) Its share in the associate's surplus and deficit resulting from upstream and downstream transactions between the investor and the investee are eliminated (whichever is earlier).

IPSAS 40

AG46. Where a first-time adopter applies the exemption which allows a transition period not to recognize and/or measure assets and/or liabilities, the first-time adopter may be a party to a public sector combination during that transition period. The first-time adopter may elect not to recognize and/or measure the assets and/or liabilities associated with the public sector combination, until the exemption that provided the relief has expired and/or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

AG47. Where a first-time adopter applies the exemption in paragraph AG46 it shall not recognize goodwill in respect of an acquisition. The first-time adopter shall recognize the difference between (a) and (b) below in net assets/equity:

(a) The aggregate of:

(i) Any consideration transferred;

(ii) Any non-controlling interests in an acquired operation; and

(iii) Any previously held equity interests in an acquired operation.

(b) The net amounts of any identifiable assets acquired, and the liabilities assumed.

AG48. IPSAS 40 is applied prospectively. Consequently, a first-time adopter does not adjust any amounts of goodwill recognized as a result of a public sector combination that occurred prior to the application of IPSAS 40.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG5(c))

IPSAS 35

AG49. A first-time adopter that is a controlled entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at the date of adoption of IPSAS, and measure its investment in each controlled entity at fair value through surplus or deficit at the date of adoption of IPSAS.

Non-controlling Interests

AG50. A first-time adopter shall apply the following requirements of IPSAS 35 prospectively from the date of transition to IPSAS:

(a) The requirement in paragraph 49 of IPSAS 35 that the total amount recognized in the statement of changes in net assets/equity is attributed to the owners of the controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

(b) The requirements in paragraphs 48 and 51 of IPSAS 35 for accounting for changes in the controlling entity's interest in a controlled entity that do not result in the loss of control; and

(c) The requirements in paragraphs 53-55 of IPSAS 35 for accounting for a loss of control over a controlled entity, and the related requirements of paragraph 13 of IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.

IPSAS 37

AG51. 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 shall be measured at the date of adoption of IPSAS as the aggregate of the carrying amount of the assets and liabilities that the entity previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions (see IPSAS 40).

AG52. The opening balance of the investment determined in accordance with paragraph AG51 is regarded as the deemed cost of the investment at initial recognition. A first-time adopter shall test the investment for impairment as at the date of adoption of IPSAS, regardless of whether there is any indication that the investment may be impaired. Any impairment loss shall be adjusted to the accumulated surplus or deficit at the date of adoption of IPSAS.

AG53. If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, the first-time adopter shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the first-time adopter shall recognize 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 shall not recognize the corresponding liability, but it shall adjust accumulated surplus or deficit at the date of adoption of IPSAS. The first-time adopter shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures as at the date of adoption of IPSAS.

Non-Financial Assets (refer to paragraphs AG4(c) and AG5(d))

AG54. The following Standards are relevant:

(a) IPSAS 5, *Borrowing Costs*;

(b) IPSAS 12, *Inventories*;

(c) IPSAS 16, *Investment Property*;

(d) IPSAS 21, *Impairment of Non-Cash-Generating Assets*;

(e) IPSAS 26, *Impairment of Cash-Generating Assets*;

(f) IPSAS 27, *Agriculture*;

(g) IPSAS 31, *Intangible Assets*;

(h) IPSAS 43, *Leases* (for Right-of-use assets)

(i) IPSAS 44, *Assets Held for Sale and Discontinued Operations*; and

(j) IPSAS 45, *Property, Plant, and Equipment*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer paragraph AG4(c))

Recognition and/or Measurement of Non-Financial Assets

AG55. Where a first-time adopter has recognized non-financial assets under its previous basis of accounting, it may take advantage of the transition period and may change its accounting policy/policies in respect of the measurement of these non-financial assets from any date within the transition period.

AG56. Where a first-time adopter has not recognized non-financial assets under its previous basis of accounting, it may take advantage of the transition period and may recognize and/or measure them for reporting periods from any date within the transition period.

AG57. 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.

AG58. If observable inputs of current value are not available for inventory, or investment property that is of a specialized nature, or property, plant, and equipment, a first-time adopter may consider other measurement techniques in determining a deemed cost in accordance with IPSAS 46.

IPSAS 5

AG59. Where a first-time adopter applies the exemption which allows a transition period not to recognize and/or measure assets, and elects to account for borrowing costs in terms of the allowed alternative treatment (see paragraphs 17-29 of IPSAS 5), it is not required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of IPSAS, until the exemption that provided the relief has expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). Only when the exemptions that provided the relief have expired, and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) will a first-time adopter be allowed to capitalize borrowing costs incurred on the qualifying assets in accordance with the allowed alternative treatment.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG5(d))

IPSAS 5

AG60. A first-time adopter is encouraged, but not required, to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment (see paragraphs 14–15 of IPSAS 5).

AG61. Where a first-time adopter adopts or changes its accounting policy to the benchmark treatment, it is allowed to designate any date before the date of adoption of IPSAS and apply IPSAS 5 prospectively on or after that designated date.

AG62. Where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred both before and after the date of adoption of IPSAS on qualifying assets for which the commencement date for the capitalization is prior to the date of adoption of IPSAS, shall be recognized retrospectively in accordance with the allowed alternative treatment.

IPSAS 12

AG63. A first-time adopter may elect to measure inventory at current operational value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that current operational value or fair value as the deemed cost. In this case the first-time adopter provides the disclosures required by paragraph AG29 of this Standard.

IPSAS 16

AG64. A first-time adopter may elect to measure investment property, if the first-time adopter elects to use the historical cost model in IPSAS 16, at fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that fair value as the deemed cost. In this case the first-time adopter provides the disclosures required by paragraph AG29 of this Standard.

IPSAS 21 and IPSAS 26

AG65. A first-time adopter shall apply the requirements in IPSAS 21 and IPSAS 26 prospectively from the date of adoption of IPSAS, except in relation to those assets where a first-time adopter elects to apply the exemption which allows a transition period not to recognize and/or measure assets. When a first-time adopter elects to apply the exemption it applies IPSAS 21 and IPSAS 26 prospectively when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

AG66. On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall assess whether there is any indication that the assets recognized and/or measured are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit at the date of adoption of IPSAS, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognized and/or measured (whichever is earlier).

IPSAS 31

AG67. A first-time adopter may elect to measure intangible assets, other than internally generated intangible assets, at current operational value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that fair value as the deemed cost. In this case the first-time adopter provides the disclosures required by paragraph AG29 of this Standard.

AG68. A first-time adopter shall recognize and/or measure an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, even if the first-time adopter has, under its previous basis of accounting, expensed such costs. Internally generated intangible assets shall not be measured at deemed cost.

IPSAS 43

AG69. A first-time adopter may elect to measure right-of-use assets at current operation value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that fair value as the deemed cost. In this case, the first-time adopter provides the disclosures required by paragraph AG29 of this Standard.

IPSAS 45

AG70. If a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSAS, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraph 20 of this Standard and paragraph 57 of IPSAS 45). However, in some cases, a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSAS (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening statement of financial position retrospectively so that it complies with IPSAS.

AG71. Subsequent depreciation is based on that deemed cost and starts from the date on which the first-time adopter determined the deemed cost, or where the first-time adopter elects to apply the exemption not to recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized in accordance with IPSAS 45 (whichever is earlier).

AG72. If a first-time adopter chooses the current value model in IPSAS 45 for some or all classes of property, plant, and equipment as its accounting policy, it presents the cumulative revaluation surplus as a separate component of net assets/equity. The revaluation surplus at the date of adoption of IPSAS is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the fair value at the date of adoption of IPSAS or where the first-time adopter elects to apply the exemption that provides a transition period not to recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with IPSAS 45 (whichever is earlier), the first-time adopter provides the disclosures required by paragraph AG29 of this Standard.

AG73. A first-time adopter may elect to use the current value of 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 capacity.

AG74. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant, and equipment by measuring it at current operational value or fair value at one particular date because of a specific event:

(a) If the measurement date is at or before the date of adoption of IPSAS, a first-time adopter may use such event-driven current operational value or fair value measurements as deemed cost for IPSAS at the date of that measurement.

(b) If the measurement date is after the date of adoption of IPSAS, but during the transition period where the first-time adopter elects to apply the exemption not to recognize and/or measure certain assets, the event-driven current operational value or fair value measurements may be used as deemed cost when the event occurs.

AG75. In measuring the current value in accordance with paragraph AG73, the first-time adopter shall apply the definition of fair value, or current operational value, and guidance in IPSAS 46.

AG76. If revaluations in accordance with the first-time adopter's previous basis of accounting did not satisfy the criteria in paragraph AG73 and AG75 of this Standard, the first-time adopter measures the revalued assets in its opening statement of financial position on one of the following bases:

(a) Cost less any accumulated depreciation and any accumulated impairment losses under the cost model in IPSAS 45;

(b) Deemed cost, being the current value at the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemption that provides a transition period not to recognize and/or measure certain assets, the date on which the asset is recognized and/or measured during the transition period, or when the transitional exemptions expire (whichever is earlier); or

(c) A revalued amount, if the entity adopts the current value model in IPSAS 45 as its accounting policy in accordance with IPSAS for all items of property, plant, and equipment in the same class.

Financial Assets and Liabilities (refer to paragraphs AG4(d) and AG5(e))

AG77. The following Standards are relevant:

(a) IPSAS 28, *Financial Instruments: Presentation*;

(b) IPSAS 30, *Financial Instruments: Disclosures*; and

(c) IPSAS 41, *Financial Instruments*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG4(d))

AG78. Where a first-time adopter has recognized financial assets and/or financial liabilities under its previous basis of accounting, it may elect not to change its accounting policy/policies in respect of the measurement of these assets and/or liabilities for reporting periods beginning on a date within the transition period.

AG79. Where a first-time adopter has not recognized financial assets and/or financial liabilities under its previous basis of accounting, it may elect not to recognize and/or measure these assets and/or liabilities for reporting periods beginning on a date within the transition period.

AG80. To the extent that a first-time adopter applies the exemptions transition period not to recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in terms of IPSAS 47, *Revenue*.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG5(e))

IPSAS 28

AG81. On the date of adoption of IPSAS, a first-time adopter shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net asset/equity component. If the liability component is no longer outstanding at the date of adoption of IPSAS, the first-time adopter does not need to separate the compound financial instrument into a liability component and a net asset/equity component, notwithstanding the requirement in paragraph 33 of IPSAS 28 to split a compound financial instrument at inception into separate liability and net asset/equity components.

IPSAS 30

AG82. Where the first-time adopter elects to present comparative information in accordance with paragraphs AG11–AG13 of this Standard, it is not required to present information about the nature and extent of risks arising from financial instruments for the comparative period in its first transitional IPSAS financial statements or its first IPSAS financial statements.

AG83. A first-time adopter shall apply the requirements in IPSAS 30 prospectively from the date of adoption of IPSAS, or when the exemptions that provided the relief have expired, and/or when the relevant financial instrument is recognized and/or measured in accordance with IPSAS 41 (whichever is earlier).

IPSAS 41

Designation of Financial Instruments at the Date of Adoption of IPSAS or during the Transition Period

AG84. A first-time adopter may designate a financial asset or financial liability as a financial asset or financial liability at fair value through surplus or deficit that meet the criteria for designation in IPSAS 41, in accordance with paragraph AG85. A first-time adopter shall disclose the fair value of financial assets and financial liabilities designated into each category at the date of designation, their classification and carrying amount.

AG85. IPSAS 41 permits a financial asset or financial liability to be designated on initial recognition (provided it meets certain criteria) as a financial asset or financial liability as at fair value though surplus or deficit. Despite this requirement, an exception applies when a first-time adopter is permitted to designate, at the date of adoption of IPSAS, any financial asset or financial liability as at fair value through surplus or deficit provided the asset meets the criteria in paragraph 44 of IPSAS 41 or liability meets the criteria in paragraph 46 of IPSAS 41 at that date.

AG86. A first-time adopter may designate an investment in an equity instrument as at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS.

Derecognition of Financial Assets and Financial Liabilities

AG87. Except as permitted by paragraph AG88, a first-time adopter shall apply the derecognition requirements in IPSAS 41 prospectively for transactions occurring on or after the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemptions not to recognize financial instruments, the date on which the exemptions that provided the relief have expired and/or the financial instruments are recognized (whichever is earlier).

AG88. Notwithstanding the provision in paragraph AG87, a first-time adopter may apply the derecognition requirements in IPSAS 41 retrospectively from a date ~~of~~ that the first-time adopter chooses, provided that the information needed to apply IPSAS 41 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for these transactions.

Hedge Accounting

AG89. As required by IPSAS 41, a first-time adopter shall at the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemption not to recognize and/or measure financial instruments during the transition period, the date when the exemption that provided the relief has expired and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier):

(a) Measure all derivatives at fair value; and

(b) Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with its previous basis of accounting as if they were assets or liabilities.

AG90. Where a first-time adopter designated a net position as a hedged item in accordance with its previous basis of accounting, it may designate, as a hedged item in accordance with IPSAS, an individual item within that net position, or a net position if that meets the requirements in paragraph 146 of IPSAS 41, provided that it does so no later than the date of adoption of IPSAS or where it elects to apply the exemption that provides a transition period not to ~~not~~ recognize and/or measure financial instruments, the date when the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

AG91. If, before the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemption not to recognize and/or measure financial instruments, the date on which the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), a first-time adopter had designated a transaction as a hedge but the hedge did not meet the conditions for hedge accounting in IPSAS 41, the first-time adopter shall apply paragraphs 135 and 136 of IPSAS 41 to discontinue hedge accounting. Transactions entered into before the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemption that provides a transition period not to recognize and/or measure financial instruments, the date when the transitional exemption expires and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 41 (whichever is earlier), shall not be retrospectively designated as hedges.

Classification and Measurement of Financial Instruments

AG92. A first-time adopter shall assess whether a financial asset meets the conditions in paragraph 40 or the conditions in paragraph 41 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS.

AG93. Where a first-time adopter finds it ~~is~~ impracticable to assess a modified time value of money element for a financial asset in accordance with paragraphs AG68–AG70 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS, a first-time adopter 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 in paragraphs AG68–AG70 of IPSAS 41. (In this case, the entity shall also apply paragraph 49J of IPSAS 30 but references to ‘paragraph 161 of IPSAS 41’ shall be read to mean this paragraph and references to ‘initial recognition of the financial asset’ shall be read to mean ‘at the date of adoption of IPSAS’.)

AG94. If it is impracticable to assess whether the fair value of a prepayment feature for a financial asset is insignificant in accordance with paragraph AG74(c) of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of 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 paragraph AG74 of IPSAS 41. (In this case, the entity shall also apply paragraph 49K of IPSAS 30 but references to ‘paragraph 162 of IPSAS 41’ shall be read to mean this paragraph and references to ‘initial recognition of the financial asset’ shall be read to mean ‘at the date of adoption of IPSAS’.)

AG95. If it is impracticable for an entity to apply retrospectively the effective interest method in IPSAS 41, 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.

Impairment of Financial Assets

AG96. A first-time adopter shall apply the impairment requirements prospectively from the date of adoption of IPSAS, except in relation to those financial assets where it elects to apply the exemptions not to recognize and/or measure financial assets. Where a first-time adopter elects to apply the exemption not to recognize financial assets, it applies the impairment provisions when the exemption that provided the relief has expired, and/or when the relevant financial assets are recognized and/or measured in accordance with IPSAS 41 (whichever is earlier).

AG97. A first-time adopter shall on the date of adoption of IPSAS, or when the exemptions that provided the relief have expired, and/or when the relevant financial instruments are recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier), assess at that date whether there is any indication that the financial instrument recognized and/or measured in the statement of financial position, is impaired. Any impairment loss incurred shall be recognized in opening accumulated surplus or deficit in the period in which the financial instrument is recognized and/or measured.

AG98. A first-time adopter shall use 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 (or for loan commitments and financial guarantee contracts the date that the entity became a party to the irrevocable commitment in accordance with paragraph 78 of IPSAS 41) and compare that to the credit risk at the date of adoption of IPSAS (also see paragraphs AG350–AG351 of IPSAS 41).

AG99. When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:

(a) The requirements in paragraph 82 and AG179–AG182 of IPSAS 41; and

(b) The rebuttable presumption in paragraph 83 of IPSAS 41 for contractual payments that are more than 30 days past due if an entity applies the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.

AG100. 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 requires undue cost or effort, an entity shall recognize a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognized (unless that financial instrument has a low credit risk at a reporting date, in which case paragraph AG75(a) of IPSAS 41 applies).

Embedded Derivatives

AG101. A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph AG109 of IPSAS 41.

Revenue and Transfer Expenses (refer to paragraph AG4(e))

AG102. The following Standards are relevant:

(a) IPSAS 47, *Revenue* and

(b) IPSAS 48, *Transfer Expenses*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG4(e))

IPSAS 47

AG103. A first-time adopter may take advantage of the transition period and may change its accounting policy in respect of the recognition and measurement of revenue ~~a~~ from any date within the transition period. A first-time adopter may change its accounting policy in respect of revenue on a class-by-class basis.

IPSAS 48

AG104. To the extent that a first-time adopter applies the exemptions which allow a transition period not to recognize and/or measure financial liabilities, it is not required to recognize and/or measure related expenses in terms of IPSAS 48.

AG105. A first-time adopter may take advantage of the transition period and change its accounting policy in respect of the recognition and measurement of transfer expenses from any date within the transition period. A first-time adopter may change its accounting policy in respect of transfer expenses on a class-by-class basis.

Other Expenses and Non-Financial Liabilities (refer to paragraphs AG4(f) and AG5(f))

AG106. The following Standards are relevant:

(a) IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*;

(b) IPSAS 32, *Service Concession Arrangements: Grantor*;

(c) IPSAS 39, *Employee Benefits*;

(d) IPSAS 42, *Social Benefits*; and

(e) IPSAS 43, *Leases*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG4(f))

IPSAS 19

AG107. Where a first-time adopter elects to apply the exemption not to recognize and/or measure property, plant, and equipment, it is not required to recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for IPSAS 45 has expired, and/or the relevant asset is recognized and/or measured in accordance with IPSAS 45 (whichever is earlier).

AG108. Where a first-time adopter elects to apply the exemption in paragraph AG107, it shall recognize and/or measure the obligation and any related asset at the same time.

IPSAS 43

AG109. Where a first-time adopter elects to apply the exemption not to recognize assets it is not required to apply the requirements related to leases until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG5(f))

IPSAS 32

Initial Measurement of Related Liability

AG110. Where a first-time adopter elects to measure service concession assets using deemed cost, the related liabilities shall be measured as follows:

(a) For the liability under the financial liability model, the remaining contractual cash flows specified in the binding arrangement and the rate prescribed in IPSAS 32; or

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

AG111. A first-time adopter shall recognize and/or measure any difference between the value of the service concession asset and the financial liability under the financial liability model in paragraph AG110 in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

IPSAS 39

AG112. A first-time adopter shall recognize and/or measure all employee benefits at the date of adoption of IPSAS, except for defined benefit plans and other long-term employee benefits where it elects to apply the exemption not to recognize assets and/or liabilities.

Defined Benefit Plans and Other Long-Term Employee Benefits

AG113. On the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemption not to recognize and/or measure the relevant liabilities, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:

(a) The present value of the obligation at the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemption not to recognize and/or measure the relevant liabilities, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), by using the Projected Unit Credit Method; and

(b) Minus the fair value, at the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemption not to recognize and/or measure the relevant liabilities, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier) of plan assets (if any) out of which the obligations are to be settled directly.

AG114. If the initial liability in accordance with paragraph AG113 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, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

AG115. The effect of the change in the accounting policy to IPSAS 39 includes any remeasurements that arose, if any, in earlier periods. Under its previous basis of accounting, a first-time adopter may not have recognized and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of IPSAS or where a first-time adopter elects to apply the exemption not to recognize and/or measure the relevant liabilities, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), of any plan assets in accordance with paragraph AG113(b). This increased liability is recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

AG116. A first-time adopter shall recognize all cumulative remeasurements in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

IPSAS 42

AG117. On the date of adoption of IPSAS, or where a first-time adopter elects to apply the exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date in accordance with IPSAS 42.

AG118. If the initial liability in accordance with paragraph AG117 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, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

IPSAS 43

AG119. A first-time adopter that is a lessor shall at the date of adoption of IPSAS, 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 at the date of adoption of IPSAS. A first-time adopter may assess whether a contract existing at the date of adoption of IPSAS contains a lease by applying paragraphs 10–12 of IPSAS 43 to those contracts on the basis of facts and circumstances existing at that date.

AG120. When a fist-time adopter that is a lessee recognizes lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph AG119):

(a) Measure a lease liability at the date of adoption of IPSAS. A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments (see paragraph AG123), discounted using the lessee's incremental borrowing rate (see paragraph AG123) at the date of adoption of IPSAS.

(b) Measure a right-of-use asset at the date of adoption of IPSAS. The lessee shall 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 (see paragraph AG123), 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; and

(c) Apply IPSAS 21 or IPSAS 26 to right-of-use assets at the date of adoption of IPSAS.

AG121. Notwithstanding the requirements in paragraph AG120, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of adoption of IPSAS 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.

AG122. A first-time adopter that is a lessee may do one or more of the following at the date of adoption of IPSAS, 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 requirements in paragraph AG120 to leases for which the lease term (see paragraph AG123) ends within 12 months of the date of adoption of IPSAS. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted for in accordance with paragraph 7 of IPSAS 43.

(c) Elect not to apply the requirements in paragraph AG120 to leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9 of IPSAS 43). Instead, the entity shall account for (including disclosure of information about) these leases in accordance with paragraph 7 of IPSAS 43.

(d) Exclude initial direct costs (see paragraph AG123) 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.

AG123. Lease payments, lessor, lessee, lessee's incremental borrowing rate, commencement date of the lease, initial direct costs and lease term are defined terms in IPSAS 43 and are used in this Standard with the same meaning.

Disclosure and Other Standards (refer to paragraph AG5(g))

AG124. To the extent that a first-time adopter elects to apply the exemptions not to recognize and/or measure items during the transition period, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in IPSAS 1, IPSAS 18, *Segment Reporting*, and/or applicable IPSAS until such time as the exemptions that provided the relief have expired and/or when the relevant items have been recognized and/or measured in accordance with applicable IPSAS (whichever is earlier).

AG125. The following Standards are relevant:

(a) IPSAS 18, *Segment Reporting;* and

(b) IPSAS 20, *Related Parties*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period (refer to paragraph AG5(g))

IPSAS 18

AG126. A first-time adopter may elect to present segment information from any date within the transition period.

IPSAS 20

AG127. A first-time adopter may elect to disclose related party relationships, related party transactions and information about key management personnel from any date within the transition period.

Appendix B

Amendments to Other IPSAS

This Exposure Draft proposes amendments to other IPSAS which are editorial in nature. These amendments are intended to ensure consistency with the proposed title of IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*, and to reflect the current use of "IPSAS" as an acronym across IPSAS. Because these amendments are consistent across multiple IPSAS, and do not propose any principled changes in the respective IPSAS, the Amendments to Other IPSAS have been summarized in tabular format for ease of review. Constituents who prefer to review Amendments to Other IPSAS in the standard marked-up format should refer to the supplemental material posted in conjunction with this Exposure Draft.

The following amendments are made to the respective IPSAS, new text is underlined and deleted text is struck through:

Amendments to first time adoption paragraphs

First time adoption paragraphs have been updated to replace references to "the accrual basis of IPSAS of accounting", with "accrual basis IPSAS", consistent with the title of IPSAS 33, as follows:

- When an entity adopts ~~the~~ accrual basis IPSAS~~s~~ ~~of accounting~~ as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS~~s~~)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS~~s~~.

Amendments to effective date paragraphs

Effective date paragraphs referencing IPSAS 33 have been updated to reflect that the acronym for "International Public Sector Accounting Standards" is "IPSAS", consistent with the proposed title of IPSAS 33 as follows:

- **Paragraphs [X], [Y] and [Z] were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS~~s~~)* issued in [MMM, YYYY]. An entity shall apply those amendments for annual financial statements covering periods beginning on or after [MMM DD, YYYY]. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before [MMM DD, YYYY], the amendments shall also be applied for that earlier period.**

Basis for Conclusions / Initial measurement paragraphs

Basis for conclusion paragraphs in various IPSAS, and an initial measurement paragraph in IPSAS 46, *Measurement*, referencing IPSAS 33 have been updated to reflect the acronym for "International Public Sector Accounting Standards" is "IPSAS", consistent with the proposed title of IPSAS 33.

	Amendments to Paragraphs		
IPSAS Amended	*Amendments to first time adoption paragraphs*	*Amendments to effective date paragraphs*	*Basis for conclusions / initial measurement paragraphs*
IPSAS 1	154	153F	
IPSAS 2	64	63C	
IPSAS 3	60	59B	
IPSAS 4	72	71A	
IPSAS 5	43	42B	
IPSAS 9	42	41A	
IPSAS 10	39	38C	
IPSAS 11	58	57A	
IPSAS 12	52	51B	
IPSAS 13	86	85C	BC10
IPSAS 14	33	32B	
IPSAS 16	102	101B	BC10
IPSAS 17	108	107F	BC15 and BC16
IPSAS 18	77	76A	
IPSAS 19	112	111B	
IPSAS 20	43	42A	
IPSAS 21	83	82C	
IPSAS 22	48	47A	
IPSAS 23	125	124C	
IPSAS 24	55	54A	
IPSAS 26	127	126D	
IPSAS 27	57	56A	
IPSAS 28	61	60B	
IPSAS 29	126	125B	
IPSAS 30	53	52A	
IPSAS 31	133	132C	
IPSAS 32	37	36A	
IPSAS 34	33		

	Amendments to Paragraphs		
IPSAS Amended	*Amendments to first time adoption paragraphs*	*Amendments to effective date paragraphs*	*Basis for conclusions / initial measurement paragraphs*
IPSAS 35	80		
IPSAS 36	52		
IPSAS 37	43		
IPSAS 38	62		
IPSAS 39	117		
IPSAS 40	126C		BC85 and BC95
IPSAS 41	157		
IPSAS 42	36		
IPSAS 43	104		
IPSAS 44	59		
IPSAS 45	86		
IPSAS 46			7 and BC21
IPSAS 47	195		
IPSAS 48	63		
IPSAS 49	52		

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 91).

Background

BC1. Prior to the development of IPSAS 33, there was no Standard that addresses issues arising from the first-time adoption of IPSAS. As a result, the IPSASB approved a project in June 2011 to develop a comprehensive set of principles to be used by entities on the adoption of accrual basis International Public Sector Accounting Standards (IPSAS).

BC2. In 2023, the IPSASB initiated a limited scope project to address stakeholder concerns with the application of IPSAS 33, by re-organizing and clarifying the guidance to make the Standard more useful and effective. See paragraphs BC131-BC138.

BC3. While this Standard has Implementation Guidance, it is not within the scope of this project to develop more detailed practical guidance on the first-time adoption of accrual basis IPSAS. The IPSASB is of the view that because specific issues relating to first-time adoption are likely to vary from one jurisdiction to the next, and because the starting point for first-time adopters varies depending on their previous basis of accounting, individual jurisdictions need to play a role in the development of additional implementation guidance to assist first-time adopters in their transition to accrual basis IPSAS.

BC4. This Standard addresses the transition from either a cash basis, or an accrual basis under another reporting framework, or a modified version of either the cash or accrual basis of accounting. Consequently, the IPSASB agreed that the project was not an IFRS convergence project.

BC5. The IPSASB did, however, consider the transitional exemptions included in IFRS 1, *First-time Adoption of International Financial Reporting Standards,* as well as the transitional provisions included in the existing suite of IPSAS, in developing this Standard.

BC6. In developing this Standard, the IPSASB agreed that, because this Standard is not a convergence project, all the transitional provisions and exemptions should be included in a single pronouncement. In comparison with IFRS 1, the IPSASB agreed that no transitional provisions and exemptions should be included as appendices, as this could be confusing to the preparers of the financial statements if the provisions and exemptions are dispersed throughout the Standard.

BC7. Once they are applied the transitional exemptions provided in this Standard will replace many of the transitional provisions in IPSAS.

BC8. When the IPSASB issues new pronouncements, it will consider specific transitional provisions to be included in this Standard that will provide relief for a first-time adopter. Transitional provisions for entities already applying accrual basis IPSAS will be included in the new pronouncements that are developed.

Objective

BC9. The IPSASB noted that the intention of IPSAS 33 is to act as a transition Standard to assist the first-time adopter to apply accrual basis IPSAS by allowing certain exemptions from recognition, measurement, presentation, and disclosure requirements in other IPSAS. The first-time adopter is, therefore, not adopting IPSAS 33, but IPSAS.

Scope

BC10. This Standard applies when an entity adopts accrual basis IPSAS for the first time to the extent that it has adopted one or more of the transitional exemptions and provisions in this Standard. This Standard provides relief to a first-time adopter in presenting its transitional/first IPSAS financial statements, and allows a first-time adopter certain voluntary exemptions during the transition period.

BC11. This Standard requires an entity to comply with each effective IPSAS at the date of adoption, but grants limited exemptions from requirements in certain areas where the benefits to users of financial statements are less than the cost of complying with those requirements. Retrospective application of some IPSAS is prohibited, particularly where they require judgment by management about past conditions.

BC12. The exemptions provided in this Standard may override some of the requirements in existing accrual basis IPSAS during the transition to accrual basis IPSAS.

BC13. The date of adoption of accrual basis IPSAS is the start of the reporting period in which the first-time adopter elects to adopt accrual basis IPSAS. If, on the date of adoption of accrual basis IPSAS the first-time adopter elects to apply one or more of the voluntary exemptions or provisions that affect fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS, the first-time adopter will present transitional IPSAS financial statements during the ~~period of~~ transition period. At the end of the transition period the first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSAS in order to assert compliance with accrual basis IPSAS as required in IPSAS 1, *Presentation of Financial Statements,* even though the date of adoption of accrual basis IPSAS may have been at an earlier point.

BC14. If, however, on the date of adoption of accrual basis IPSAS the first-time adopter does not elect to apply one or more of the exemptions or provisions that affect fair presentation and compliance with accrual basis IPSAS, the first-time adopter can present "IPSAS financial statements" during the transition period. IPSAS financial statements are financial statements in which the first-time adopter can make an explicit and unreserved statement in those financial statements of compliance with accrual basis IPSAS. If a first-time adopter does not adopt the exemptions in this Standard that affect fair presentation and compliance with accrual basis IPSAS, its first financial statements following the date of adoption of accrual basis IPSAS may also be its first IPSAS financial statements.

Definitions

BC15. The definition of "deemed cost" is provided in IPSAS 46, *Measurement*. IPSAS 46 deleted the definition of "deemed cost" from IPSAS 33. However, due to the particular importance of deemed cost in the application of the exemptions in IPSAS 33, and because IPSAS 33 precedes IPSAS 46, the IPSASB decided to reintroduce the definition of "deemed cost" in IPSAS 33 and align it with the definition in IPSAS 46.

Recognition and Measurement

BC16. When IPSAS 33 was developed, the IPSASB decided to provide transitional exemptions pertaining to recognition and measurement principles in other IPSAS rather than a separate set of requirements for recognition and measurement in IPSAS 33. First-time adopters should refer to the respective IPSAS' requirements for recognition and measurement; read in conjunction with the available transitional exemptions in IPSAS 33.

Developing Criteria to Develop and Assess Transitional Exemptions

BC17. In developing the transitional exemptions in this Standard, the IPSASB developed a set of criteria based on what user information needs are likely to be on the adoption of and transition to accrual basis IPSAS as set out in Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)*. These criteria were used to evaluate these transitional provisions, along with an assessment of the qualitative characteristics, and constraints on, information included in general purpose financial reports (GPFRs) as outlined in Chapter 3 of the *Conceptual Framework*. The results of these evaluations are included in paragraphs BC18-BC23.

BC18. In developing requirements for the first-time adopter's opening statement of financial position and in considering the transitional exemptions, the IPSASB referred to the objective of financial statements, as set out in Chapter 2 of the *Conceptual Framework.*

BC19. Chapter 2 of the *Conceptual Framework* states that the objective of GPFRs, which encompass financial statements including their notes, is to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes. Information about financial position, financial performance and cash flows are typically presented in financial statements.

BC20. Chapter 3 of the *Conceptual Framework* also identifies qualitative characteristics of information included in the GPFRs of public sector entities. These qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information included in GPFRs are materiality and cost-benefit.

Criteria Used to Develop the Transitional Exemptions

Fair Presentation and Compliance with IPSAS

BC21. IPSAS 1 requires that an entity whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes to the financial statements. Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS. Due to the complexity of issues relating to the first-time adoption of accrual basis IPSAS, the IPSASB agreed that relief should be provided in certain instances. The IPSASB also agreed that some relief would affect the fair presentation of a first-time adopter's financial statements and the ability to assert compliance with accrual basis IPSAS.

BC22. The IPSASB agreed that there should be a differentiation between those transitional exemptions which do not affect fair presentation of a first-time adopter's financial statements and those that do. The IPSASB also agreed that structuring the Standard in this way will give preparers a better understanding of the effect that the various transitional provisions and exemptions will have on their financial statements during the period of transition. Following the differentiation, the IPSASB agreed that first-time adopters should be alerted to the fact that they will not be able to assert compliance with accrual basis IPSAS as required by IPSAS 1 if they adopt certain exemptions provided in this Standard.

BC23. The IPSASB agreed that where a first-time adopter takes advantage of the exemptions that affect fair presentation and compliance with accrual basis IPSAS, it will not be able to make an unreserved statement of compliance with accrual basis IPSAS until such time as the exemptions that provided the relief have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier).

BC24. Following comments received on the proposed IPSAS on *First-time Adoption of Accrual Basis IPSAS*, the IPSASB agreed to clarify that a first-time adopter should apply judgment in assessing to what extent the transitional exemptions and provisions adopted affect fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSAS. Where a first-time adopter elects to apply one or more of the transitional exemptions and provisions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS, the first-time adopter may still conclude that fair presentation is achieved because the recognition and/or measurement of the item, transaction or event that is exempted is not significant in relation to the financial statements as a whole. Applying judgment to assess the significance of the transitional exemption and provision adopted in relation to the financial statements as a whole needs to be based on the first-time adopter's specific circumstances.

BC25. The IPSASB agreed that the financial statements presented at the end of the first reporting period where a first-time adopter takes advantage of one of more of the transitional exemptions that affect fair presentation and compliance with accrual basis IPSAS, should be referred to as the transitional IPSAS financial statements. This is because the first-time adopter will not be able to make an explicit and unreserved statement of compliance with IPSAS while applying the exemptions in this Standard that affect the fair presentation of the financial statements and a first-time adopter's ability to assert compliance with accrual basis IPSAS.

BC26. To provide relevant information during the transition to accrual basis IPSAS, disclosures to inform users about the transitional exemptions adopted by a first-time adopter, and how it transitions from its previous basis of accounting to accrual basis IPSAS, are required.

BC27. The IPSASB noted that, as part of a first-time adopter's transition to accrual accounting, an implementation plan should be developed so as to assess the first-time adopter's progress reporting under accrual basis IPSAS. Disclosures on the progress towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenue and/or expenses in accordance with this plan will provide useful information to the users of financial statements in understanding how and by when the first-time adopter intends to comply in full with the requirements of all the applicable IPSAS.

Financial Statements

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

Presenting Comparative Information Following the Adoption of Accrual Basis IPSAS

BC28. The IPSASB considered whether comparative information should be required on the adoption of accrual basis IPSAS, as the existing transitional provisions in IPSAS 1 do not require comparative information with respect to the financial statements in which accrual accounting is first adopted in accordance with IPSAS.

BC29. In considering the cost-benefit criterion, the IPSASB confirmed that the current approach in IPSAS 1 for the presentation of comparative information should be retained to promote the adoption of accrual basis IPSAS. This Standard therefore only encourages the provision of comparative information, with no requirement that a first-time adopter should provide comparative information in its first transitional IPSAS financial statements, or first IPSAS financial statements.

BC30. Where a first-time adopter elects not to present comparative information, the IPSASB agreed that, as a minimum, a first-time adopter's first transitional IPSAS financial statements should include one statement of financial position and an opening statement of financial position at the date of adoption of accrual basis IPSAS.

BC31. Where a first-time adopter elects to present comparative information, the IPSASB agreed that a first-time adopter should present one statement of financial position with comparative information for the preceding period and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSAS.

BC32. As the adoption of the transition period also affects the presentation of comparative information, the IPSASB agreed that, where the first-time adopter took advantage of the transition period~~s~~, it should only adjust comparative information for the year following the date of adoption of accrual basis IPSAS when information was available about the items that had been recognized and/or measured during that period. Comparative information will thus only be adjusted retrospectively to the extent that the information is available.

BC33. A first-time adopter shall apply the requirements in IPSAS 1 relating to the disclosure of comparative information after it has presented its first IPSAS financial statements.

Presenting a Comparison of Budget and Actual Information in a First-time Adopter's Financial Statements

BC34. The IPSASB debated whether a first-time adopter should be required to present a comparison of budget and actual information following the adoption of accrual basis IPSAS, and whether such information is useful to the users of the financial statements.

BC35. The IPSASB considered that, if a first-time adopter prepares its budget on the cash-basis of accounting after the adoption of accrual basis IPSAS, presenting this comparison in its transitional IPSAS financial statements, or its first IPSAS financial statements, could be onerous. The IPSASB, however, agreed that such a comparison should be included in a first-time adopter's financial statements, as the comparison is a unique feature of IPSAS and promotes accountability and decision-making.

Presenting a Cash Flow Statement in a First-time Adopter's Financial Statements

BC36. During the comment period on ED 53, *First-Time Adoption of Accrual basis International Public Sector Accounting Standards (IPSAS)*, respondents requested the IPSASB to consider providing transitional exemptions and provisions for the preparation of the cash flow statement where a first-time adopter elects to adopt a transition period for the recognition and/or measurement of certain assets and/or liabilities. Respondents noted that it did not seem to be appropriate to present a cash flow statement when the statement of financial position was incomplete.

BC37. The IPSASB confirmed its previous decision not to provide any transitional relief as, during the transition period, users still need cash flow information on:

(a) the sources of cash inflows;

(b) the items on which cash was expensed during the reporting period; and

(c) the cash balance as at the end of the reporting period.

General Principles

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

Deemed Cost

Deemed Cost for Assets and/or Liabilities

BC38. Some measurements in accordance with IPSAS are based on an accumulation of past costs or other transaction data. If a first-time adopter has not previously collected the necessary information, collecting or estimating it retrospectively may be costly and/or impractical. To avoid excessive cost, this Standard allows a first-time adopter to use the current operational value or fair value as a substitute for the initial cost of inventory, investment property where the first-time adopter elects to use the historical cost model in investment property, property, plant, and equipment, financial instruments and service concession assets at the date of adoption of IPSAS. Where a first-time adopter takes advantage of the exemption that provides a transition period not to recognize and/or measure certain assets, the current operational value or fair value is the deemed cost at the date on which the asset is recognized and/or measured during the transition period.

BC39. While it could be argued that the use of current operational value or fair value would lead to a lack of comparability, the IPSASB noted that cost is generally equivalent to current operational value or fair value at the date of acquisition. Therefore, the use of current operational value or fair value as the deemed cost of an asset means that a first-time adopter reports the same cost data as if it has acquired an asset with the same value or same remaining service potential at the date of adoption of IPSAS. If there is any lack of comparability, it arises from the aggregation of costs incurred at different dates, rather than from the use of current operational value or fair value as deemed cost for some assets at a date. In the view of the IPSASB, using deemed cost facilitates the introduction of IPSAS in a cost-effective way.

BC40. When this Standard was issued, if an entity revalued an asset under the revaluation model in IPSAS 17, it had to revalue all assets in that class. This restriction prevented selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB had considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21, *Impairment of Non-cash-generating Assets* and IPSAS 26, *Impairment of Cash-generating Assets* required an impairment test if there was any indication that an asset was impaired. Thus, if a first-time adopter used current operational value or fair value as deemed cost for assets whose current operational value or fair value was likely to be above cost, it could not ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable when current operational value or fair value is used as deemed cost. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

BC41. The IPSASB also considered the circumstances under which a first-time adopter should be allowed to determine a deemed cost on initial adoption of accrual basis IPSAS, or where a first-time adopter takes advantage of the exemption that provides a transition period not to recognize and/or measure certain assets. The IPSASB considered whether the use of a deemed cost should be restricted to those situations where cost information is not available for assets, or whether it should be allowed in all circumstances, irrespective of whether cost information is available at the date of adoption of IPSAS, or the date on which the asset is recognized and/or measured where a first-time adopter has taken advantage of the exemption that provides a transition period not to recognize and/or measure certain assets.

BC42. The IPSASB agreed that, to avoid the selective valuation of assets, the use of a deemed cost should be restricted to those circumstances where reliable information about the historical cost of the asset is not available.

BC43. As part of the development of IPSAS 46, additional guidance on deemed cost was developed. This guidance was developed to clarify the application of deemed cost in practice. Measurement guidance in IPSAS 46 is generic in nature, and was developed to supplement specific guidance in specific IPSAS. The deemed cost guidance in IPSAS 46 was developed to be consistent with the existing guidance in this Standard. However, where specific deemed cost guidance in this Standard exists, it takes precedence over the generic guidance in IPSAS 46.

Deemed Cost for Investments in Controlled Entities, Joint Ventures or Associates

BC44. The IPSASB also agreed that a first-time adopter may elect to measure an investment in a controlled entity, joint venture or associate at cost in its separate financial statements at the date of adoption of IPSAS at either cost as determined in accordance with IPSAS 34, or deemed cost. Deemed cost is determined as fair value in accordance with IPSAS 41, *Financial Instruments*.

Deemed Cost for Intangible Assets

BC45. In considering whether a first-time adopter should be allowed to determine a deemed cost for intangible assets, the IPSASB considered the existing transitional provisions in IPSAS 31. IPSAS 31 allows a first-time adopter to use a previous revaluation of intangible assets at, or before, the date of transition as deemed cost at the date of the revaluation if the revaluation is broadly comparable to fair value or cost or depreciated cost that is adjusted to reflect, for example, changes in a general or specific price index. IPSAS 31, however, only allows a first-time adopter to determine a deemed cost if the recognition criteria in IPSAS 31 (including the reliable measurement of original cost), and the criteria for revaluation (including the existence of an active market), have been met.

BC46. The IPSASB debated whether public sector entities will be likely to fulfil the second criterion on initial adoption of accrual basis IPSAS, i.e., the existence of an active market. The IPSASB acknowledged that it may be uncommon for an active market to exist in the public sector for intangible assets, and as a consequence, the use of the deemed cost approach will likely be considerably restricted. As a result, a first-time adopter may be unable to determine a deemed cost for some intangible assets such as in-house developed IT systems.

BC47. The IPSASB considered whether the reliable measurement of original cost should be required for first-time adopters which previously applied a cash basis of accounting, as some entities might find it cumbersome to identify the original cost of their intangible assets. It was also argued that, where a first-time adopter has previously applied the accrual basis of accounting and it has acquired intangible assets through a non-exchange transaction, it might not be able to reliably measure original cost.

BC48. Based on these considerations, the IPSASB concluded that the reliable measurement of the original cost should be excluded as a criterion for the application of the deemed cost approach on first-time adoption of accrual basis IPSAS.

BC49. The IPSASB therefore agreed that a first-time adopter is allowed to determine a deemed cost for intangible assets where that deemed cost meets:

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

(b) the criteria in IPSAS 31 for revaluation (including the existence of an active market).

BC50. In considering whether a first-time adopter should be allowed to determine a deemed cost for internally generated intangible assets, the IPSASB concluded that it would be difficult to retrospectively assess the probability of expected future economic benefits or service potential through reasonable and supportable assumptions as management would not be able to apply hindsight in obtaining such information. Due to the absence of reliable information at the date of adoption of accrual basis IPSAS, it was therefore agreed that a deemed cost may not be determined for internally generated intangible assets.

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC51. When this Standard was issued, the IPSASB had considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require a time-consuming and expensive estimation of cost if previous revaluations already complied with IPSAS. This Standard therefore allowed a first-time adopter to use a revaluation under its previous basis of accounting for property, plant, and equipment determined at or before the date of adoption of IPSAS as deemed cost. This was allowed to be used if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost, where appropriate, in accordance with IPSAS adjusted to reflect, for example, changes in a general or specific price index.

BC52. In determining "fair value", when IPSAS 33 was developed, the guidance in each applicable IPSAS was considered, where such guidance was provided. In IPSAS 17 it was noted that fair value was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also stated that if market-based evidence was not available to measure items of property, plant, and equipment, an entity could estimate fair value using replacement cost, reproduction cost or a service units approach. In developing IPSAS 45, the IPSASB noted that these principles have been moved to IPSAS 46. In reaching this conclusion, the IPSASB noted that IPSAS 45 refers to historical cost rather than cost and uses current operational value rather than fair value.

BC53. The IPSASB noted that the fair value guidance in IPSAS 16 only considered a market-based value, and that limited guidance was provided in IPSAS 12 in determining fair value. The IPSASB concluded that because, a first-time adopter may find it difficult to determine a market-based fair value for all investment properties and all inventories, other measurement alternatives may need to be considered in determining deemed cost for inventory or investment property.

BC54. The IPSASB has since issued IPSAS 46, which provides a consistent approach to measuring fair value in all IPSAS. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, which guides entities on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the continued use of measurement alternatives was appropriate, and noted that the alternatives included in IPSAS 33 are consistent with measurement techniques available in IPSAS 46 to estimate fair value. The IPSASB agreed to modify the wording of IPSAS 33 accordingly.

BC55. The IPSASB agreed that a first-time adopter may consider the following measurement techniques in determining a deemed cost if observable inputs of fair value are not available at the date of adoption of IPSAS, or on the date that the asset is recognized and/or measured where a first-time adopter takes advantage of the exemption that provides a transition period not to ~~not~~ recognize and/or measure certain assets:

(a) For inventory, current operational value; and

(b) For investment property of a specialized nature, depreciated replacement cost.

BC56. The IPSASB concluded that, to the extent that a first-time adopter has elected to adopt one or more of the transitional exemptions that provides relief for the recognition and/or measurement of assets, it may not be able to retrospectively adjust the value of the asset to the date of adoption of accrual basis IPSAS. Retrospectively adjusting the value of the asset would require consideration of the price of the asset and other market factors that existed at the date of adoption of accrual basis IPSAS, including whether there was any indication that the asset was impaired.

BC57. The IPSASB concluded that this would not be cost effective. It was therefore agreed that, where a first-time adopter takes advantage of the exemption which allows a transition period not to ~~not~~ recognize and/or measure an asset, it may determine a deemed cost for that asset at any point of time within the transition period. Any adjustments resulting from the recognition of the asset are recognized against the opening accumulated surplus or deficit in the year in which the asset is recognized and/or measured.

Accounting Boundaries

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

BC58. The IPSASB considered whether it should provide a transition period that allows a first-time adopter not to present consolidated financial statements on the adoption of accrual basis IPSAS. In considering this proposal, it was argued that providing such an exemption would contradict the concept of a reporting entity and would not result in fair presentation.

BC59. The IPSASB therefore agreed that providing a transition period not to present consolidated financial statements should not be provided. Rather, a first-time adopter should be given a transition period of a maximum of three years from eliminating balances, transactions, revenues and expenses between entities within the economic entity.

BC60. As some balances, transactions, revenues and expenses may be known on adoption of accrual basis IPSAS, a first-time adopter is encouraged to eliminate only those known balances, transactions, revenues and expenses.

BC61. For the same reason, the IPSASB agreed that a similar exemption should also be provided where a first-time adopter has one or more associates in terms of IPSAS 36.

Providing a relief for the initial recognition and/or measurement of interests in other entities

BC62. Following comments received on Exposure Draft 53, the IPSASB agreed that relief should be provided to a first-time adopter for the initial recognition and/or measurement of its interests in other entities. This relief would allow those first-time adopters that have not gathered the necessary information at the date of adoption of IPSAS more time to appropriately classify and measure their interests in other entities. The relief provided is consistent with that provided for financial instruments.

Presenting consolidated financial statements where the transition period is adopted for the initial recognition and/or measurement of interests in other entities and/or to not eliminate inter-entity balances, transactions, revenue and expenses

BC63. Some respondents to the Exposure Draft 53 expressed a view that relief should be provided from preparing consolidated financial statements where a first-time adopter has elected to not eliminate some, or all of the inter-entity balances, transactions, revenues and expenses between entities within the economic entity. The IPSASB concluded that the financial statements that are presented where a first-time adopter has taken advantage of the transition period for the initial recognition and/or measurement of interests in other entities, and/or where it has elected ~~not~~ to not eliminate some, or all inter-entity balances, transactions, revenues and expenses, cannot be presented as consolidated financial statements, until (a) the exemptions that provided the relief have expired, and/or (b) inter-entity balances, transactions, revenue and expenses have been eliminated, and/or (c) its interests in other entities have been recognized and/or measured appropriately. The IPSASB agreed that disclosure requirements should be added to explain to users why the financial statements are not presented as consolidated financial statements.

BC64. The IPSASB agreed that providing this clarification is necessary because, where a first-time adopter has not eliminated inter-entity balances, transactions, revenues and expenses as required by IPSAS 35, preparing consolidated financial statements will merely be an aggregation of inter-entity balances, transactions, revenues and expenses within the economic entity. Such statements would not be useful for accountability and decision-making purposes.

BC65. Likewise eliminating the carrying amount of an investment in the controlled entity as required by IPSAS 35 may not be possible if the first-time adopter has not recognized and/or measured its interest in other entities as required by the applicable IPSAS.

IPSAS 40, Public Sector Combinations

BC66. In developing IPSAS 40, *Public Sector Combinations*, the IPSASB considered whether it should provide a transition period that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination. The IPSASB noted that IPSAS 40 is applied prospectively, and so its application would not require a first-time adopter to adjust their accounting for a public sector combination that occurred prior to the application of that Standard. However, a public sector combination could occur during a first-time adopter's transition period. The IPSASB considered that requiring a first-time adopter to recognize and measure all the assets and liabilities associated with a public sector combination without requiring them to recognize and measure all similar assets and liabilities would not provide useful information for the users of the financial statements.

BC67. Consequently, the IPSASB agreed to provide a transition period of a maximum of three years that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination as part of this Standard. The IPSASB also agreed that a first-time adopter should not recognize goodwill where it did not recognize and/or measure all the assets and/or liabilities associated with a public sector combination.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

IPSAS 37, Joint Arrangements

BC68. Based on the reasons as set out in paragraphs BC58-BC60, the IPSASB decided that a similar exemption should also be provided where a first-time adopter has one or more jointly controlled entity/entities in terms of IPSAS 37.

Non-Financial Assets

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

Transitional Exemptions Relating to the Recognition, Measurement and Classification of Non-Financial Assets

BC69. When an entity first adopts IPSAS, it may not have comprehensive information about the existence of all the assets under its control, and may require a period of time to obtain and compile appropriate records to account for such assets. As this is relevant to entities that previously did not apply the accrual basis of accounting, it is likely that these entities will require considerable effort to recognize, measure and/or classify their assets in accordance with IPSAS.

BC70. In considering the relief that should be provided to a first-time adopter for the recognition of its non-financial assets when this Standard was issued, the IPSASB had considered the then-existing five-year relief period in IPSAS 17. To encourage entities to prepare for the adoption of accrual basis IPSAS in advance of the preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB agreed that a grace period not exceeding three years should be allowed. As entities should have prepared well in advance for their transition to accrual basis IPSAS and not solely rely on the transition period provided in this Standard, the IPSASB was of the view that the transition period of a maximum of three years was more manageable, and would reduce the period over which entities would not be able to assert compliance with IPSAS. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

BC71. The IPSASB agreed that prescribing a transition period in this Standard, rather than allowing each jurisdiction to prescribe their own transition~~al~~ period, reduces inconsistencies between jurisdictions. The credibility and comparability of financial statements during the transition period will also be enhanced.

BC72. The IPSASB confirmed that the relief provided in this Standard should not be seen as a complete roadmap for the adoption of accrual basis IPSAS, but rather the end stage of their adoption process. The transition period for a maximum of three years provided in this Standard is aimed at providing relief to a first-time adopter to assist with the final conversion to accrual basis IPSAS. Prior to the adoption of this Standard, a first-time adopter should adequately prepare for its transition to accrual basis IPSAS. The complexity and length of the transition will depend on its previous basis of accounting. The transition period of a maximum of three years should not be seen as the entire adoption phase.

BC73. The IPSASB noted that the guidance in *Pathways to Accrual* developed by the International Federation of Accountants, which builds upon the work in Study 14, *Transition to Accrual basis of Accounting: Guidance for Governments and Government Entities*, is one among many sources, that may assist a first-time adopter in planning their conversion to accrual basis IPSAS, prior to applying this Standard.

BC74. The IPSASB proposed that a transition period of a maximum of three years should be provided for the following assets:

(a) Investment property;

(b) Property, plant, and equipment;

(c) Biological assets and agricultural produce;

(d) Intangible assets; and

(e) Service concession assets.

BC75. Following comments received on ED 53, the IPSASB agreed to also allow a transition period for the recognition and/or measurement of inventory. The IPSASB agreed that, even though inventory is a current asset which is realized, consumed, sold or used in an entity's operating cycle, a first-time adopter may need time to identify and classify its assets appropriately between inventory, investment property or property, plant, and equipment, particularly in respect of land. Inventory may also comprise specialized assets or high volumes of items, e.g., medical supplies, for which additional time may be required for appropriate classification.

BC76. In considering whether a transition period should be allowed for the recognition of biological assets and agricultural produce, the IPSASB noted that these assets and activities may be limited in some jurisdictions while they may be more significant in other jurisdictions, for example, developing countries. On balance, the IPSASB agreed that a transition period of a maximum of three years should be provided for the recognition of biological assets and agricultural produce to assist those jurisdictions where this is a significant issue.

BC77. IPSAS 5 allows a first-time adopter to either adopt the benchmark treatment or the allowed alternative treatment in accounting for borrowing costs incurred on qualifying assets. When a first-time adopter elects to apply the allowed alternative treatment, there may a timing difference between the capitalization of borrowing costs on qualifying assets where the first-time adopter takes advantage of the transition period not to recognize certain assets. To address this timing difference, and because it might not be practical to obtain information on borrowing costs incurred prior to the recognition of the asset where the first-time adopter takes advantage of the transition period, the IPSASB agreed that a first-time adopter should not be required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of accrual basis IPSAS. Based on comments received from respondents on ED 53, the IPSASB also agreed that any borrowing costs incurred during the transition period should also not be capitalized until the exemptions that provided the relief have expired and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

BC78. After comments were received on ED 53, the IPSASB also agreed that a first-time adopter may change its accounting policy with respect to 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 are permitted in the applicable IPSAS.

Transitional Exemptions relating to the Measurement of Non-Financial Assets

BC79. The IPSASB acknowledged that some entities may have recognized non-financial assets under their previous basis of accounting. The IPSASB therefore agreed that a transition period of a maximum of three years should be allowed for the measurement of all non-financial assets that were recognized by a first-time adopter under its previous basis of accounting. During this transition~~al~~ period, a first-time adopter will be able to develop reliable models for applying the principles in IPSAS. During the transition period the first-time adopter will not be required to change its accounting policy in respect of the measurement of these assets.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

IPSAS 5, Borrowing Costs

BC80. The existing transitional provisions in IPSAS 5 encouraged a first-time adopter to adjust its financial statements retrospectively if it did not recognize borrowing costs under its previous basis of accounting. The IPSASB agreed that it does not want to provide more relief to a first-time adopter than to those entities that already apply IPSAS, particularly where the first-time adopter elects to adopt the allowed alternative treatment under which borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a part of the cost of an asset.

BC81. As a result, the IPSASB agreed that a first-time adopter should only be encouraged to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment. Providing this relief was seen as necessary because obtaining information retrospectively may be costly and considerable effort may be needed to obtain such information.

BC82. The IPSASB, however, acknowledged that some information may be available to a first-time adopter depending on its previous basis of accounting. It was therefore agreed that a first-time adopter who adopted or changed its accounting policy to the benchmark treatment, should apply the principles in IPSAS 5 prospectively, but it may designate a date before the date of adoption of IPSAS in applying IPSAS 5. This relief can only be adopted to the extent that the information is available.

BC83. The IPSASB does not want to encourage first-time adopters to adopt the allowed alternative treatment. Therefore, it was agreed that where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred on qualifying assets both before and after the date of adoption of IPSAS, for which the commencement date for capitalization is prior to the date of adoption of IPSAS, should be recognized retrospectively where the first-time adopter has not taken advantage of the transition period not to recognize and/or measure assets for a maximum of three years.

IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets

BC84. The IPSASB acknowledged that a first-time adopter may have applied an accounting policy for the recognition and reversal of impairment losses that are different to the requirements in IPSAS 21 and IPSAS 26, or may have not considered impairment at all. On adoption of accrual basis IPSAS, it may be difficult to determine the number of adjustments resulting from retrospective application of a change in an accounting policy, as this requires hindsight.

BC85. As a result, the IPSASB agreed that IPSAS 21 and IPSAS 26 should be applied prospectively, but that the first-time adopter should be required to assess whether an indicator of impairment has been triggered for its cash-generating and non-cash-generating assets in the opening statement of financial position.

BC86. In recognizing the effect of an impairment loss on first-time adoption of accrual basis IPSAS 21 or IPSAS 26, the IPSASB considered two options. The first option was to measure such assets at their recoverable amount, or recoverable service amount and use that as the deemed cost. The IPSASB noted that the effect of applying this option may mean that impairment losses could not be reversed in the future. This option was therefore not seen as appropriate.

BC87. The second option, which provides more relevant information, is to measure the assets at their recoverable amount, or recoverable service amount, and report the effect in net assets/equity. The IPSASB supported this option.

Timing of Impairment Test for Assets Where an Entity Adopts the Transition period for the Recognition of Assets

BC88. The IPSASB concluded that where a first-time adopter takes advantage of the exemption that provides relief for the recognition and/or measurement of assets, it may be difficult to retrospectively adjust the value of the asset to the date of adoption of IPSAS. A first-time adopter may find it difficult to determine the number of adjustments that would be required based on impairment that may or may not have existed at the date of adoption of IPSAS.

BC89. The IPSASB therefore agreed that IPSAS 21 and IPSAS 26 should be applied prospectively from the date when the transitional exemptions that provided the relief have expired, or when the relevant asset is recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

IPSAS 31, Intangible Assets

BC90. On first-time adoption of accrual basis IPSAS, a first-time adopter will be required to recognize all assets and liabilities for which recognition is required by IPSAS. IPSAS 31 requires that past expenditure on an intangible asset that was initially recognized as an expense should not be recognized as part of the cost of an intangible asset at a later date.

BC91. The IPSASB concluded that, because a first-time adopter may have expensed costs incurred on intangible assets under its previous basis of accounting prior to the adoption of accrual basis IPSAS, a first-time adopter should be allowed to recognize all intangible assets that meet the recognition criteria and other criteria in IPSAS 31 (i.e., identifiable control of an asset and that future economic benefits or service potential that are attributable to the asset will flow to the entity), even though such costs may have been expensed prior to adoption of accrual basis IPSAS. It was however, confirmed that such assets should only be recognized as intangible assets if reliable cost information is available and an active market exists for that asset at the date of adoption of IPSAS.

Financial Assets and Liabilities

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

Transitional Exemptions Relating to the Recognition and Measurement of Financial Assets and/or Liabilities

BC92. The existing transitional provisions in IPSAS 41 do not provide any relief to a first-time adopter for the recognition and/or measurement of financial instruments. Because many public sector entities will need some time to identify and appropriately classify their financial instruments, the IPSASB agreed that a transition period should be provided to a first-time adopter for the recognition and/or measurement of financial instruments. A transition period of a maximum of three years was granted in line with the transition period provided for the recognition and/or measurement of other items.

BC93. The IPSASB, however, agreed that a distinction should be made between those entities that previously recognized financial instruments and those that did not. The IPSASB was of the view that many basic financial instruments such as cash, debtors and creditors are already recognized by public sector entities. A transition period of a maximum of three years for the recognition of financial instruments that have not been recognized under a first-time adopter's previous basis of accounting is therefore provided.

BC94. As with non-monetary assets, the IPSASB agreed that the same principle should be applied to the recognition and/or measurement of financial assets and/or liabilities, i.e., to the extent that a first-time adopter has recognized financial instruments under its previous basis of accounting, the IPSASB agreed that a transition period of a maximum of three years should be granted for the measurement and classification of financial instruments following the date of adoption of IPSAS. During this transition~~al~~ period, a first-time adopter will be able to develop reliable models for applying the principles in IPSAS 41. It would also be allowed to apply accounting policies for the measurement of financial instruments that differs from the requirements in IPSAS 41 during the transition period.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

IPSAS 28, Financial Instruments: Presentation

BC95. IPSAS 28 requires an entity to split a compound financial instrument at inception of the agreement, into separate liability and equity components. It was concluded that separating these two portions would be costly and would not provide relevant information to users of financial statements if the liability component of the compound instrument is no longer outstanding at the date of adoption of IPSAS. As a result, this Standard requires that, if the liability component is no longer outstanding at the date of adoption of IPSAS, the first-time adopter does not need to separate the cumulative interest on the liability component from the net assets/equity component.

IPSAS 41, Financial Instruments

BC96. The IPSASB concluded that, as it is in most instances impracticable to apply impairment principles retrospectively, the impairment of financial instruments should be applied prospectively. This exemption is consistent with the exemption provided for non-cash-generating assets and cash-generating assets in accordance with IPSAS 21 and IPSAS 26.

IPSAS 30, Financial Instruments: Disclosures

BC97. The IPSASB concluded that, if a first-time adopter did not disclose information relating to financial instruments, and the nature and extent of risks arising from financial instruments under its previous basis of accounting, obtaining such information may be costly, and therefore is not feasible.

BC98. The IPSASB therefore agreed that the disclosure requirements relating to financial instruments should be applied prospectively from the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides a transition period not to ~~not~~ recognize and/or measure financial assets, when the exemptions expire, or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

BC99. To the extent that a first-time adopter elects to present comparative information, the IPSASB agreed that a first-time adopter does not need to present comparative information for disclosures relating to the nature and extent of risks arising from financial instruments for the comparative period because obtaining such information may be costly, and is therefore not feasible.

Revenue and Transfer Expenses

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

Transitional Exemptions Relating to the Recognition and Measurement of Revenue

IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) and IPSAS 47, Revenue

BC100. When this Standard was developed, the existing transitional provisions in IPSAS 23 allowed a first-time adopter not to change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also allowed a first-time adopter not to ~~not~~ change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for a period of three years. It also required that changes in accounting policies should only be made to better conform to IPSAS 23.

BC101. The IPSASB concluded that it would be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transition period of a maximum of three years should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual basis IPSAS prior to the adoption of accrual basis IPSAS. In line with the transition period provided for the recognition of assets and/or liabilities in other IPSAS, and in line with the existing transition period provided for other non-exchange revenue in IPSAS 23 at the time this Standard was developed, it was agreed that a first-time adopter should be granted a transition period of a maximum of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transition period of a maximum of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSAS. During the transition period, a first-time adopter will be allowed to continue to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

BC102. IPSAS 47 was issued in May 2023 and replaced IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, and requires an entity to identify and account for revenue based on whether it arises from a binding arrangement rather than by its classification as exchange or non-exchange. In its development, the IPSASB noted that it will be similarly challenging for public sector entities to implement IPSAS 47. The accounting for revenues without binding arrangements, which will encompass most non-exchange transactions previously in the scope of IPSAS 23, would continue to pose practical challenges. The accounting for revenues arising from binding arrangements (which may include both exchange or non-exchange revenues) may also require complex models, and new systems, processes, or internal controls. Consequently, the IPSASB concluded that the transition period of a maximum of three years should also be available for revenues accounted for in accordance with IPSAS 47 in order to provide transitional relief for first-time adopters.

Expenses and Non-Financial Liabilities

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

Recognition of Provisions Included in the Initial Cost of Property, Plant, and Equipment

BC103. The IPSASB concluded that no transition period should be provided for provisions in IPSAS 19 and that a first-time adopter should account for all its liabilities at the date of adoption of IPSAS. The IPSASB, however, acknowledges that the delay in the recognition and/or measurement of property, plant, and equipment affects the recognition and/or measurement of certain provisions which are included in the cost of such assets.

BC104. When this Standard was issued, IPSAS 17 required an entity to include, as part of the cost of an item of property, plant, and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 17 required that the obligation for costs accounted for in accordance with IPSAS 17 was recognized and measured in accordance with IPSAS 19.

BC105. The IPSASB agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is located until such time as the relevant item of property, plant, and equipment was recognized and/or measured in accordance with IPSAS 17. A transition period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSAS

BC106. Where a first-time adopter takes advantage of one or more of the transitional exemptions relating to the recognition of assets, it would, as part of this process, analyze title deeds, contracts and other similar arrangements, including lease arrangements, in determining what assets should be accounted for and their measurement. As a result, a first-time adopter may not be in a position to account for finance lease liabilities related to finance lease assets until such time as the transition period provided has expired and/or the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

BC107. Likewise, where a first-time adopter has elected to adopt the transition period provided for the recognition of service concession assets in accordance with IPSAS 32, it will not be in a position to account for the related liability under either the financial liability model or the grant of a right to the operator model until such time as the transition period provided has expired and/or the relevant assets are recognized and/or measured in accordance with IPSAS 32 (whichever is earlier).

BC108. The IPSASB agreed that the recognition of finance lease liabilities and the recognition and/or measurement of liabilities related to service concession assets should also be delayed until the transition period related to the relevant assets have expired and/or the applicable assets have been recognized and/or measured (whichever is earlier).

IPSAS 39, Employee Benefits

BC109. The IPSASB acknowledged that the recognition and/or measurement of specific liabilities in IPSAS 39 will be challenging for many public sector entities as new systems may be required and/or existing systems may need to be upgraded. The IPSASB therefore agreed that a first-time adopter should be given a transition period of a maximum of three years for the recognition and/or measurement of assets and liabilities related to defined benefit plans and other long-term employee benefits. To avoid a skewed statement of financial position, the IPSASB further agreed that any plan assets should be recognized and/or measured at the same time as the liabilities. All other employee benefits should be recognized and/or measured at the date of adoption of IPSAS.

BC110. In developing IPSAS 33, the IPSASB also agreed that, where a first-time adopter took advantage of the exemptions that provide a transition period for the recognition and/or measurement of liabilities, it should provide information about amounts for the current and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets, and the surplus or deficit in the plan and adjustments as required by IPSAS 39 prospectively

IPSAS 42, Social Benefits

BC111. The IPSASB issued IPSAS 42, *Social Benefits*, in January 2019. The IPSASB acknowledged that the recognition and/or measurement of liabilities related to social benefits may be challenging for some public sector entities. The IPSASB therefore agreed that a first-time adopter should be given a transition period of a maximum of three years for the recognition and/or measurement of liabilities related to social benefits.

Disclosure and Other Standards

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Transition Period

IPSAS 18, Segment Reporting

BC112. The IPSASB considered whether a transition period should be provided to a first-time adopter for the presentation of segment information. The IPSASB agreed that, despite the fact that the presentation of segment information might be useful, a first-time adopter should be provided a transition period, as the information used in presenting segment information needs to be built on existing information in the financial statements.

BC113. As the IPSASB agreed to allow a transition period of a maximum of three years for the recognition and/or measurement of assets and liabilities, the information which is needed to present segment information may only be available when the exemptions that provided the relief have expired, or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). As relevant and reliable information may not be available to present a meaningful segment report during the transition period, and because the presentation of a segment report may not be a priority for users during the transition to accrual basis IPSAS, it was agreed that a transition period of a maximum of three years should also be provided for the presentation of segment information.

BC114. The IPSASB also concluded that, because segment information is additional to the information required on the elements presented in the financial statements, allowing this relief is appropriate.

IPSAS 20, Related Party Disclosures

BC115. In providing a first-time adopter time to build up information on its related party relationships and related party transactions, the IPSASB agreed that the disclosure of related party relationships, related party transactions and information about key management personnel should be treated in the same way as the required eliminations of balances, transactions, revenues and expenses between entities in IPSAS 34, IPSAS 36, and IPSAS 37.

BC116. This Standard therefore provides a transition~~al~~ period of up to three years for the disclosure of related party relationships, related party transactions and information about key management personnel.

Exemptions from Presentation and/or Disclosure Requirements Where a First-time Adopter Elects to Apply One or More Exemptions

BC117. The IPSASB acknowledged and agreed that the transition period of a maximum of three years provided for the recognition and/or measurement of assets and/or liabilities also implies that the associated presentation and/or disclosure requirements in the applicable IPSAS do not need to be complied with as the information will not be available. The IPSASB agreed that the information do not need to be provided until the exemptions that provided the relief have expired or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

BC118. For the same reason, the IPSASB agreed that a first-time adopter should not be required to provide any related disclosure requirements in IPSAS 1 and IPSAS 18.

Presentation of Information on First-Time Adoption

Presenting a Reconciliation Following the Adoption of Accrual basis IPSAS

BC119. In considering what information would be useful to users of the financial statements in relation to the first-time adoption of accrual basis IPSAS, the IPSASB agreed that a reconciliation should be presented in the notes to the transitional IPSAS financial statements, or first IPSAS financial statements. The presentation of a reconciliation provides an important link between the information previously presented under the first-time adopter's previous basis of accounting, and the information prepared using IPSAS. The purpose of the reconciliation is to illustrate the adjustments that are necessary to conform with the requirements of accrual basis IPSAS, and how the transition from the previous basis of accounting to accrual basis IPSAS affected the first-time adopter's reported financial position, financial performance and cash flows. This information will be useful to the users of financial statements.

BC120. The IPSASB considered two types of reconciliations that could be presented – the first one reconciling opening balances as at the date of adoption of IPSAS, and the second reconciling the end of the latest period presented in the first-time adopter's most recent annual financial statements in accordance with its previous basis of accounting.

BC121. The IPSASB concluded that the latter option will be too onerous and that the cost of presenting the reconciliation, outweighs the benefit. It was also concluded that users will not likely make use of such reconciliations and that the information will not have predictive value.

BC122. As a result, it was agreed that a first-time adopter should only present a reconciliation of its closing balances reported under its previous basis of accounting to its net assets/equity in accordance with IPSAS for the opening statement of financial position. The information should be presented in the notes to the transitional IPSAS financial statements, or the first IPSAS financial statements.

BC123. If a first-time adopter previously applied a cash basis of accounting, it would not have presented net assets/equity. The IPSASB therefore agreed that, if a first-time adopter's previous basis of accounting is cash, it is not required to present a reconciliation.

BC124. To meet the qualitative characteristics of relevance, understandability and comparability during the period of transition where a first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of assets and/or liabilities, the IPSASB considered whether a first-time adopter should be required to present a reconciliation at different points during its transition to accrual basis IPSAS.

BC125. The IPSASB agreed that, where a first-time adopter takes advantage of any of the exemptions permitted, it should present a reconciliation of items that have been recognized and/or measured during the reporting period when these items have not been recognized and/or measured in the previous reported financial statements. This reconciliation should be presented in addition to the reconciliation that is presented to explain differences between the first-time adopter's previous basis of accounting and those items that are recognized and/or measured in accordance with IPSAS in the opening statement of financial position.

Alignment of Accrual IPSAS and Government Finance Statistics Reporting

BC126. As the objective of this Standard is to provide a suitable starting point for accounting in accordance with accrual basis IPSAS, it does not provide specific guidance to a first-time adopter on alignment of GFS reporting and accrual basis IPSAS. In its Consultation Paper, *Alignment of IPSAS and Government Finance Statistics Reporting Guidelines: Resolution of Differences through Convergence and Management*, the IPSASB discusses where guidance on GFS alignment options within the suite of IPSASB's pronouncements will be best addressed. By choosing Government Finance Statistics (GFS) aligned policy options on the first-time adoption of accrual basis IPSAS, a first-time adopter may facilitate production of high quality and timely data for inclusion in their GFS reports.

Revision of IPSAS 33 as a result of the IPSASB's, *The Applicability of IPSAS,* issued in April 2016

BC127. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about the applicability of IPSAS to "public sector entities other than Government Business Enterprises (GBEs)" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) (Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 33 as a result of *Improvements to IPSAS*, 2018

BC128. Following the issue of IPSAS 33, the IPSASB became aware that stakeholders were uncertain whether the exemption from providing comparative information applied to the first financial statements issued following the adoption of accrual basis IPSAS, or all financial statements issued during the transition period. Paragraph AG11 referred to an entity's 'first transitional IPSAS financial statements' whereas other paragraphs referred to an entity's 'transitional IPSAS financial statements.' The IPSASB agreed to amend the other paragraphs to clarify that the exemption applies only to the first financial statements issued following the adoption of accrual basis IPSAS.

BC129. The IPSASB reviewed the requirements of IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, issued by the IASB in December 2016, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. Consequently, the IPSASB agreed to incorporate the requirements of IFRIC 22 into Appendix A of IPSAS 4. The IPSASB noted that entities are permitted to apply the requirements of Appendix A prospectively, and therefore agreed that a first-time adopter does not need to apply the requirements to assets, expenses and revenue in the scope of Appendix A initially recognized before the date of adoption of IPSAS.

Revision of IPSAS 33 as a result of *Improvements to IPSAS*, 2021

BC130. The IPSASB reviewed the revisions to IFRS 1, *First-time Adoption of International Financial Reporting Standards, included in Annual Improvements to IFRS® Standards* (2018-2020) issued by the IASB in May 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments. Therefore, the IPSASB agreed to amend IPSAS 33 by including the alternative exemption in paragraph AG22 of IPSAS 33, for use by a controlled entity when measuring the cumulative translation differences for all its foreign operations at the date of adoption of IPSAS.

Revision of IPSAS 33 as a result of IPSAS 46, *Measurement* and ED 90, *Amendments to IPSAS as a result of the application of IPSAS 46, Measurement*

BC131. IPSAS 46, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets and liabilities, to ensure a consistent approach across all IPSAS. After approving IPSAS 46 in March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in IPSAS 46 and the updated objective of measurement of assets in the updated Conceptual Framework: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*. The IPSASB agreed that a first-time adopter may elect to use a current value measurement basis, such as current operational value or fair value, as deemed cost for inventory, investment property, property, plant, and equipment, intangible assets, right-of-use assets, financial instruments, or service concession assets.

BC132. Furthermore, the IPSASB agreed to add current operational value as an alternative measurement basis to fair value for property, plant, and equipment. Current operational value was added to align the principles in this Standard with IPSAS 45, *Property, Plant, and Equipment*, which, as a result of IPSAS 45, permits measuring property, plant, and equipment at current operational value for subsequent measurement.

BC133. IPSAS 46 also provided additional generic guidance on the application of deemed cost. This guidance is consistent with the deemed cost guidance in this Standard.

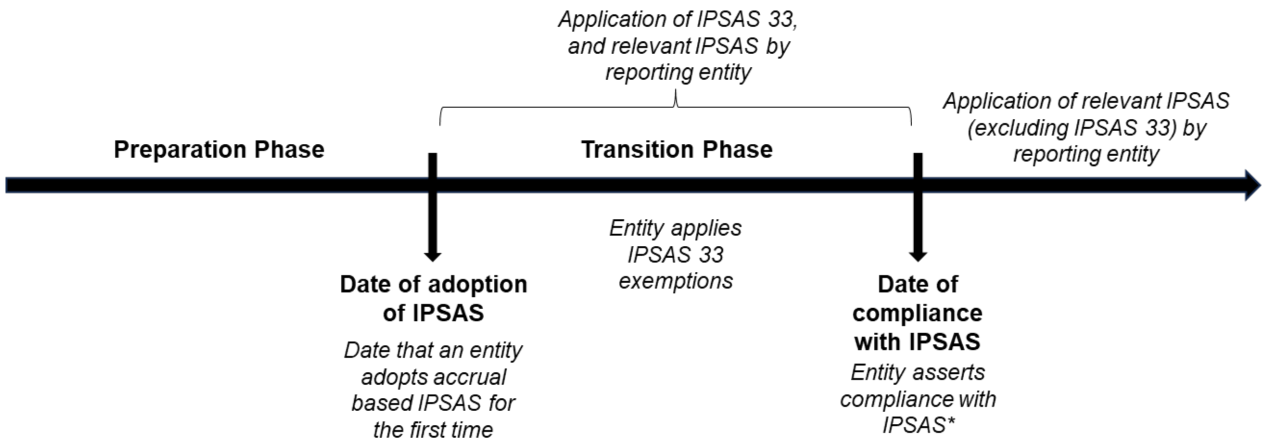
Revision of IPSAS 33 as a result of the IPSAS 33 Limited-scope Project

BC134. The IPSASB received strong support during its 2021 Mid-Period Consultation to add a limited scope project to revise IPSAS 33. As a result, the IPSASB approved its Project Brief in December 2023 to address two key issues with the application of IPSAS 33:

(a) Stakeholders expected IPSAS 33 to be applicable for the full transition to accrual basis IPSAS and that the three-year transition period includes planning and preparation activities, which is not consistent with the objective of IPSAS 33; and

(b) The general exemption in IPSAS 33 where a first-time adopter is not required to recognize and/or measure items for reporting periods beginning on a date within three years following the date of adoption of IPSAS, which in practice led to deferred recognition, measurement, and disclosure of items until the end of the three years, and ultimately a lack of compliance with accrual basis IPSAS.

BC135. The IPSASB noted that these key issues relate to the understandability and user-friendliness of IPSAS 33, rather than the usefulness of its exemptions in supporting first-time adopters in their transition to full accrual basis IPSAS. The IPSASB clarified that IPSAS 33 is applied during the transition phase, after planning and preparation activities are complete:



BC136. To address key issues and enhance the understandability and effective use of IPSAS 33, the IPSASB revised existing authoritative text and added new non-authoritative text to:

(a) Clarify the objective and scope of IPSAS 33;

(b) Encourage first-time adopters to comply with full accrual basis IPSAS as soon as possible, and that exemptions provided in IPSAS 33 are available for the transition period of a maximum of three years;

(c) Rearrange existing guidance to provide elective exemptions by topic, particularly between core text and application guidance, in line with current IPSAS standard-setting practice; and

(d) Remove repetitive guidance from IPSAS 33.

BC137. The IPSASB revisited the changes to IPSAS 33 as a result of IPSAS 46 noted in paragraphs BC131-BC133. The IPSASB decided to duplicate the IPSAS 46 definition of “deemed cost” in IPSAS 33, due to its importance in applying exemptions available in IPSAS 33. Furthermore, the IPSASB noted that the disclosure requirements when using current values for subsequent measurement, which had been added through amendments by IPSAS 46, were not applicable when initially measuring deemed cost. Thus, the IPSASB decided to remove those paragraphs.

BC138. The IPSASB also decided to critically review existing non-authoritative guidance to determine whether they are useful. The IPSASB decided to replace the existing non-authoritative guidance with new Implementation Guidance and Illustrative Examples to help first-time adopters better understand the application and use of IPSAS 33. In particular, new Implementation Guidance (IG) clarified the objective and scope of IPSAS 33; specific definitions (for example “date of adoption of IPSAS” and “transition period”); exemptions relating to the recognition and measurement of items; the exceptions to applying accrual basis IPSAS; and presentation and disclosure. To assist first-time adopters to transition to accrual basis IPSAS, new IG were included on the planning and preparation phase of the full transition to accrual basis IPSAS.

BC139. The IPSASB confirmed the earlier decision that IPSAS 33 was not a convergence project. IPSAS 33 does not prescribe the recognition and measurement, presentation, and disclosure of items, which are contained in other IPSAS. Instead, IPSAS 33 supports entities which elected to adopt IPSAS, while IFRS 1, *First-time Adoption of International Financial Reporting Standards,* supports entities which elected to adopt IFRS.

BC140. The IPSASB noted that amendments to other IPSAS, as a result of the Limited-Scope Project, are not substantial in nature. Amendments to other IPSAS are limited to:

(a) Amending the title of IPSAS 33, as referenced in other IPSAS, to reflect that the acronym for “International Public Sector Accounting Standards” is “IPSAS”, consistent with current IPSAS standard-setting practice; and

(b) Replacing references to “the accrual basis of IPSAS of accounting”, with “accrual basis IPSAS”, consistent with the title of IPSAS 33.

Because these amendments are not substantial in nature and have no impact on the application of other IPSAS, the IPSASB agreed an effective date is not applicable and no associated paragraphs are necessary.

Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 91).

Section A: Objective and Scope

A.1 Use of IPSAS 33 by Newly Created Entities

Can a newly created entity in its first year of operation apply IPSAS 33?

No. IPSAS 33 is intended for first-time adopters transitioning from another basis of accounting, such as a cash basis or an accrual basis under another reporting framework. An entity may be created in a jurisdiction where the regulatory framework requires it to comply with accrual basis IPSAS. Such an entity would then comply with the applicable accrual basis IPSAS from its creation date because it is not transitioning from another basis of accounting, even though it is the first time the entity applies accrual basis IPSAS.

Section B: Definitions

B.1 Date of Adoption of IPSAS

B.1.1 Differences Between the Date of Adoption of IPSAS and the Date of Announcement of Adoption

Is the date of the announcement that a jurisdiction will adopt accrual basis IPSAS the date of adoption of IPSAS?

Generally, no. Paragraph 8 of IPSAS 33 defines the date of adoption of IPSAS as the date at the start of the reporting period for which the entities covered by the announcement prepare their first transitional IPSAS financial statements or their first IPSAS financial statements. In comparison, the date of announcement is the date on which a jurisdiction formally and publicly announces its decision (for example, in the national budget) that it will adopt accrual basis IPSAS, which may or may not be the same as the date of adoption of IPSAS. Differences between the date of adoption of IPSAS and the date of announcement may arise due to a variety of reasons, including but not limited to:

- The date of the announcement may be made based on the economic, fiscal, or political timetable, which might not be an appropriate time in the financial reporting timetable.
- Once the date of adoption of IPSAS is announced, as part of planning and preparing for the transition to accrual basis IPSAS, significant preparatory work may be required and challenges may need to be overcome, such as capacity building, information-technology systems and other infrastructure needs, in order to facilitate the transition to accrual basis IPSAS from the previous basis of accounting.

B.1.2 Changing the Date of Adoption of IPSAS

Can the date of adoption of IPSAS be changed during the transition period?

No. Once a first-time adopter prepares and presents its first transitional IPSAS financial statements or first IPSAS financial statements, then the date of adoption of IPSAS is set and subsequent reporting during the transition period should be done in accordance with IPSAS 33 and relevant IPSAS.

For example, Public Sector Entity A prepares and presents its first transitional IPSAS financial statements for the year ended December 31, 20X1. The date of adoption of IPSAS is, therefore, January 1, 20X1, being the start of the reporting period of the first transitional IPSAS financial statements. From this date, IPSAS 33 and relevant IPSAS should be applied by Public Sector Entity A.

B.1.3 Comparative Information and the Date of Adoption of IPSAS

Does the election to present comparative information in the first transitional IPSAS financial statements or first IPSAS financial statements affect the date of adoption of IPSAS?

No. The date of adoption of IPSAS is the start of the reporting period in which an entity elects to adopt accrual basis IPSAS and for which it presents its first transitional IPSAS financial statements or (if the entity does not adopt the exemptions in IPSAS 33 that affect fair presentation and compliance with accrual basis IPSAS) its first IPSAS financial statements.

For example, Public Sector Entity A prepares and presents its first transitional IPSAS financial statements for the year ended December 31, 20X1. The entity elects to present comparative information for the year ended December 31, 20X0, which paragraphs AG11 of IPSAS 33 requires to be in compliance with IPSAS 1, *Presentation of Financial Statements*.

The date of adoption of IPSAS remains, January 1, 20X1, being the start of the reporting period of the first transitional IPSAS financial statements.

B.2 Transition Period

Can the transition period of three years be adjusted if circumstances require, for example, to exceed three years?

No. The transition period is limited to a maximum of three years, as noted in paragraph 5 of IPSAS 33. This transition period does not include any preparation or planning activities, which an entity should complete prior to the transition period. The three-year limit does not preclude an entity from transitioning to full accrual basis IPSAS in less than three years. An entity is encouraged to comply with IPSAS in less than three years (i.e., to use a shorter transition period).

For example, a first-time adopter is required to comply with IPSAS by the end of the transition period. A public sector entity with a date of adoption of IPSAS of January 1, 20X1 and who elects to apply exemptions for a maximum period of three years, must present its first IPSAS financial statements in full compliance with IPSAS for the year ending on December 31, 20X3.

Prior to the date of adoption of IPSAS, a first-time adopter shall have adequately prepared for its transition to accrual basis IPSAS. Various sources of external guidance may assist a first-time adopter with planning the conversion to accrual basis IPSAS. The transition period of up to three years should not be seen as a complete roadmap for the adoption of accrual basis IPSAS, but rather the end stage of the adoption process.

B.3 Transitional IPSAS Financial Statements and First IPSAS Financial Statements

When an entity only elects exemptions that do not affect fair presentation, should the financial statements be referred to as “transitional IPSAS financial statements” or “first IPSAS financial statements”?

Paragraph AG5 of IPSAS 33 provides exemptions, which if elected, do not affect fair presentation. Financial statements prepared with these elected exemptions only should be referred to as “first IPSAS financial statements” as defined in paragraph 9 of IPSAS 33.

Compliance with accrual basis IPSAS means that an entity is able to present fairly its financial position, financial performance and cash flows (see IPSAS 1.27). Therefore, if a first-time adopter only elects exemptions that do not affect fair presentation, it can make an explicit and unreserved statement of compliance with accrual basis IPSAS as required by paragraph 6 of IPSAS 33. The Basis of Preparation paragraph in the notes to the financial statements shall highlight this fact. For example:

"Basis of Preparation

The financial statements have been prepared in accordance with accrual basis International Public Sector Accounting Standards (IPSAS) and in accordance with [legislative prescript or other determination]. The date of adoption of IPSAS is January 1, 20X1.”

However, if any of the exemptions in paragraph AG4 of IPSAS 33 are elected, i.e., exemptions that affect fair-presentation, the first-time adopter will not be able to make an explicit and unreserved statement of compliance with accrual basis IPSAS per paragraph 6 of IPSAS 33. In this instance, the financial statements should be referred to as “transitional IPSAS financial statements”. The Basis of Preparation should highlight this fact. For example:

"Basis of Preparation

“The financial statements have been prepared in accordance with accrual basis International Public Sector Accounting Standards (IPSAS), except as allowed for by IPSAS 33, First-Time Adoption of Accrual Basis IPSAS, where a first-time adopter may elect to not recognize and/or measure certain assets and/or liabilities and/or revenue and/or expenses, for a transition period of up to three years, and in accordance with [legislative prescript or other determination].

The date of adoption of IPSAS is January 1, 20X1. During the transition period, [Name of Entity] elected to not recognize certain items of property, plant, and equipment. As a result, it is unable to make and explicit an unreserved statement of compliance with accrual basis IPSAS in preparing its transitional IPSAS financial statements for this reporting period. [Name of Entity] intends to recognize and/or measure all items of property, plant, and equipment by December 31, 20X3.”

B.4 Opening Statement of Financial Position

B.4.1 Reporting Amounts in the Opening Statement of Financial Position

What amounts should be reported in the Opening Statement of Financial Position?

Where the first-time adopter elects to apply any of the exemptions in paragraph AG9 to AG127 of IPSAS 33, the following two scenarios affect the opening statement of financial performance:

- For exemptions affecting recognition -- amounts for assets and/or liabilities may not be reported at all.

- For exemptions affecting measurement -- the amounts for assets and/or liabilities recognized under IPSAS may equal the closing amounts reported under the first-time adopter's previous basis of accounting.

B.4.2 Adjusting Amounts Reported in the Opening Statement of Financial Position

Should amounts reported in the Opening Statement of Financial Position be adjusted when accounting policies change during the transition period?

It depends. When a first-time adopter elects to apply the exemptions that affect fair presentation (that is, not to recognize and/or measure certain assets and/or liabilities), the first-time adopter shall recognize any adjustments to the opening balance of accumulated surplus or deficit (or, if appropriate, another category of net assets/equity) in the period in which the items are recognized and/or measured.

For example, Public Sector Entity A's date of adoption of IPSAS is January 1, 20X1. At the date of adoption of IPSAS, it elected certain exemptions.

Public Sector Entity A makes accounting policy adjustments in the reporting period 20X1. Consequently, Public Sector Entity A should make adjustments to the accumulated surplus or deficit at January 1, 20X1. This will affect the Opening Statement of Financial Position.

If Public Sector Entity A continues to make more accounting policy adjustments in the reporting period 20X2 (i.e., the second year of its transition), then the adjustments for the reporting period 20X2 should be made to the accumulated surplus or deficit at January 1, 20X2. This will not affect the Opening Statement of Financial Position. Subsequently, the entity should adjust the opening balance of each affected component of net assets/equity in the current year.

Section C: Recognition and Measurement

C.1 Use of Exemptions not within IPSAS 33

Can a first-time adopter elect not to recognize and/or measure an asset or liability during the transition period if there is no specific exemption provided for such item in IPSAS 33?

No. IPSAS 33 provides a comprehensive list of exemptions a first-time adopter can elect to apply (paragraphs AG4-AG5), and prohibits the first-time adopter from applying those exemptions by analogy to other items (paragraphs 9 and 10 of IPSAS 33). Where there is no exemption provided for an item, an entity shall recognize and measure that item in accordance with the relevant accrual basis IPSAS at the date of adoption of IPSAS. For example, the exemption in paragraph AG111 of IPSAS 33 only applies to defined benefit plans and other long-term employee benefits and cannot be applied by analogy to other employee benefits and related liabilities (e.g., short-term employee benefits such as paid absences, which are to be recognized and measured in accordance with IPSAS 39, *Employee Benefits*).

C.2 Assets / Liabilities Acquired/Accrued during the Transition Period

Can the first-time adopter recognize and/or measure new items acquired and/or accrued after the date of adoption of IPSAS, in accordance with IPSAS, when the entity elected to apply related exemptions under IPSAS 33?

It depends. Exemptions elected during the transition period impact the accounting policy applicable to items in the financial statements. Therefore, during the transition period, all items should be accounted for using that same accounting policy, whether existing or newly acquired/accrued. However, a first-time adopter may or may not elect exemptions for individual classes or categories of assets and/or liabilities, and therefore apply separate accounting policies, during the transition period.

For example, Public Sector Entity A acquires 10 new vehicles during the transition period. At the date of adoption, it had 50 vehicles. The entity elected from the date of adoption of IPSAS not to recognize and measure vehicles (a separate class of property, plant, and equipment) under IPSAS 45, *Property, Plant, and Equipment* due to a lack of relevant financial information at the date of adoption. The entity should account for the 10 new vehicles under its previous basis of accounting until the entity has obtained the required information on the existing 50 vehicles and able to change its accounting policy for the recognition and/or measurement of all vehicles.

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 as noted in paragraph AG19 of IPSAS 33.

As per the example, because vehicles are a separate class of assets, the entity may apply a separate accounting policy for vehicles independently of the accounting policy related to other classes of assets, during the transition period.

C.3 *Reporting Entity Application of Exemptions*

Can the economic entity of consolidated financial statements or financial statements applying the equity method, claim compliance with IPSAS 33 where the election of exemptions for recognition and/or measurement of the same items differs among the combined entities?

No. Consolidated financial statements (in the scope of IPSAS 35) and financial statements applying the equity method (in the scope of IPSAS 36) should be prepared using uniform accounting policies. Where different elections are made between the entities of the economic entity (i.e., the controlling and controlled entities, joint ventures or associates), appropriate adjustments should be made to the combined entities' financial statements in preparing the consolidated financial statements (or where the equity method is applied, those financial statements), to ensure uniformity of the economic entity's accounting policies. Furthermore, the exemptions which entities may elect should be as described in paragraph AG9-AG127 of IPSAS 33.

C.4 *Incomplete Non-Financial Asset Recognition at the Date of Adoption of IPSAS*

Can a first-time adopter apply the exemptions in IPSAS 33 to individual items of non-financial assets, which existed but were not recognized at the date of adoption of IPSAS, when other items of that same class were recognized?

No. Fundamentally, an error was made by the first-time adopter under its previous basis of accounting, by not recognizing items of non-financial assets when other items in the same class had been recognized. This error should be corrected by recognizing these non-financial assets under the entity's previous basis of accounting, as at the date of adoption. Only after the error had been corrected can the first-time adopter elect to apply the exemptions in IPSAS 33 relating to the measurement of these recognized non-financial assets.

C.5 Application of Deemed Cost

When can an entity use a deemed cost in accordance with IPSAS 33?

A deemed cost may only be used if no cost information is available about the historical cost of the asset and/or liability. This allowance applies in two scenarios with differing points in time (see paragraphs AG29 and AG32 of IPSAS 33):

(a) Where the first-time adopter recognizes and/or measures items, then at the date of adoption of IPSAS; or

(b) Where the first-time adopter elects to apply the exemptions not to recognize and/or measure, then at any point in time ("at any point in time" refers to the timing of the measurement effort, not to the as-of date of the measurement) during the transition period.

When a first-time adopter initially measures these assets and/or liabilities, it recognizes the effect directly in accumulated surplus or deficit in the opening statement of financial position in the period in which the deemed cost is determined.

Section D: Exceptions to the Retrospective Application of IPSAS

D.1 Basis of Preparation

Can the exemptions in IPSAS 33 affect a first-time adopter's financial statements at the end of the transitional period?

No. The exemptions in paragraphs AG4 and AG5 of IPSAS 33 only affect a first-time adopter's financial statements during the transition period up to and including the end of the second year following the date of adoption of IPSAS. Once the first-time adopter continues into the third and final year (maximum) of the transition period, it shall apply accounting policies that are consistent with accrual basis IPSAS, so that by the end of the third year, those financial statements comply in full with IPSAS (referred to as the first IPSAS financial statements).

When accounting policies are applied anew, unrelated to the exemptions, those should be applied retrospectively. As a result, the first IPSAS financial statements should represent the financial position as at the beginning and end of that year, and the financial performance and changes in net assets/equity for that year, in accordance with accrual basis IPSAS.

D.2 Changes in Estimates

How should changes in estimates before and after the date of adoption of IPSAS be accounted for?

IPSAS 33 prohibits the retrospective application of changes in estimates following the date of adoption of IPSAS. Paragraph AG18 of IPSAS 33 requires the first-time adopter's estimates at the date of adoption of IPSAS to be consistent with estimates made in accordance with the previous basis of accounting. The first-time adopter should account for any changes in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*, prospectively.

New estimates, which were not required under the previous basis of accounting, shall equally be treated on a prospective basis, to reflect conditions that existed at the date of adoption of IPSAS or at a date during the transition period. For example, 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 a date during the transition period.

Section E: Presentation and Disclosure

E.1 Reconciliations to Amounts Under Previous Basis of Accounting

What is the purpose of the reconciliations required by IPSAS 33?

Paragraph 29 of IPSAS 33 requires a first-time adopter (other than a first-time adopter that had previously presented financial statements on a cash basis (paragraph 28 of IPSAS 33) to present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with IPSAS for its first transitional IPSAS financial statements or its first IPSAS financial statements. A reconciliation is also presented of its accumulated surplus or deficit in accordance with its previous basis of accounting to its accumulated surplus or deficit at the date of adoption of IPSAS.

Furthermore, paragraph 33 of IPSAS 33 requires a first-time adopter that elects to apply the exemptions not to recognize and/or measure items, to present a reconciliation of items that have been recognized and/or measured during the reporting period which were not recognized and/or measured in the previous financial statements.

The presentation of these reconciliations provides useful information for decision-making by providing links to information previously presented under the previous basis of accounting, and the information prepared using IPSAS, and to meet the qualitative characteristics of relevance, understandability and comparability during the transition period.

The purpose of the reconciliations is to illustrate the adjustments that are necessary to conform with the requirements of accrual basis IPSAS.

Section F: Planning and Preparation Phase of IPSAS transition

F.1 Entity Operations

How and when should an entity consider the accounting activities it should include in its financial statements in accordance with IPSAS?

Planning and preparing for the transition to accrual basis IPSAS includes the identification of activities and related items that will be recognized in the first-time adopter's financial statements in accordance with the Conceptual Framework and applicable IPSAS. This may involve various actions, including, but not limited to:

(a) Determining if the entity itself controls the resources and incurs the obligations described or merely acts as an agent of the government;

(b) Establishing the entity's boundaries as a reporting entity; and

(c) Performing a gap analysis of existing and expecting financial reporting, including the previous basis of reporting and requirements under IPSAS.

These activities should be identified and concluded before the date of adoption of IPSAS, so as to determine which exemptions should be elected for application from the date of adoption of IPSAS and to promote the correct application of the elected exemptions during the transition period.

Furthermore, the relief provided in IPSAS 33 should not be seen as a complete roadmap for the adoption of accrual basis IPSAS, but rather the end stage of the adoption process, and the first-time adopters should avoid using the transition period to identify the entity's activities and related items.

Additional insights on the actions to support public financial reform, including adoption of accrual basis IPSAS, can be found outside of the IPSAS literature, for example Pathways to Accrual published by the International Federation of Accountants.

F.2 Pre-Adoption Consideration of IPSAS 33

Can an entity consider the guidance in IPSAS 33 to prepare for its transition to accrual basis IPSAS?

Yes. An entity planning to transition to accrual basis IPSAS is encouraged to consider the requirements, exceptions and allowed exemptions in IPSAS 33 to plan and prepare for its transition. In doing so, the entity would know what to prepare for and which exemptions provided may be relevant to elect given its current state of operations, resources, accounting systems and reporting requirements. Though the transitional exemptions in IPSAS 33 are meant to support entities along their journey to implement IPSAS and seen as the last stage of the adoption process, considering these would assist entities to create detail plans to ultimately apply the requirements in accrual basis IPSAS.

An entity may be transitioning from its previous basis of accounting such as when it:

(a) Prepared its most recent previous financial statements in accordance with the IPSAS, *Financial Reporting Under the Cash Basis of Accounting*;

(b) Presented its most recent previous financial statements:

  (i) In accordance with prescribed requirements that are not consistent with IPSAS in all respects;

  (ii) In conformity with IPSAS in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IPSAS;

  (iii) Containing an explicit statement of compliance with some, but not all, IPSAS, including the adoption of the exemptions provided in this IPSAS that affect fair presentation and compliance with accrual basis IPSAS;

  (iv) In accordance with prescribed requirements inconsistent with IPSAS, using some individual IPSAS to account for items for which prescribed requirements did not exist; or

  (v) In accordance with prescribed requirements, with a reconciliation of some amounts to the amounts determined in accordance with IPSAS;

(c) Prepared financial statements in accordance with IPSAS for internal use only, without making them available to external users;

(d) Prepared a reporting package in accordance with IPSAS for consolidation purposes without preparing a complete set of financial statements as defined in IPSAS 1; or

(e) Did not present financial statements for previous periods.

An entity should prepare well in advance for its transition to accrual basis IPSAS and there is a need for a clearly sequenced and phased strategy with a credible timeframe for implementation of accrual accounting prior to IPSAS adoption.

F.3 Approaches for Transitioning to IPSAS

What are the possible approaches for transitioning to accrual basis IPSAS?

A transition to accrual basis accounting is often depicted as either a ‘big-bang’ approach or a phased approach. In practice, however, there are variations that can be considered when developing the national transition strategy and plan.

The ‘big-bang’ approach entails requiring all entities within the program to adopt all of the requirements of IPSAS and publish audited financial statements from a particular date. In some jurisdictions, the big bang approach is the only option due to administrative law requiring entities to follow formal legislation for financial reporting, which may not permit entities to phase the transition, while the parallel application of the previous basis of accounting and accounting under accrual basis IPSAS is costly and requires additional operational capacity.

The phased approach is one where IPSAS are implemented in stages – the stages depending on the institutional and individual capacity with a jurisdiction or within sectors, with the aim of meeting IPSAS requirements to the fullest extent practicable by the end of the transition period. For example, accrual accounting requires the recognition of all assets and liabilities which meet the definition of and satisfy the criteria for recognition. Under the phased approach, an entity might be permitted to move to the full accrual basis IPSAS by recognizing assets and liabilities in stages. IPSAS 33 is designed for a phased approach, i.e., includes some exemptions over a period of up to three years.

It should be noted that IPSAS 33 does not prescribe a particular approach for transitioning to accrual basis IPSAS, and that any approach taken by a jurisdiction would depend on various factors, including those noted above, ultimately making the approach unique to that jurisdiction.

Additional insights on the elements of reform implementation can be found outside of the IPSAS literature.

F.4 Planning and Preparation for Transition to Accrual Basis IPSAS

Prior to the date of adoption of IPSAS, what factors should be considered to plan and prepare for the transition to accrual basis IPSAS?

Successful transition to accrual basis IPSAS depends on proper planning and preparation. The application of IPSAS 33 is the final phase of the transition to accrual basis IPSAS and applies from the date of adoption of IPSAS. A first-time adopter should consider other sources of guidance, such as those issued by the International Federation of Accountants, (e.g., Pathways to Accrual), to assist with the planning and preparation phase prior to the date of adoption of IPSAS. Important factors to consider during this pre-adoption, planning and preparation phase may include, but are not limited to:

- Public Financial Management (PFM) Reform

  Appropriate PFM reform should identify accrual basis accounting (which includes accrual basis IPSAS) as an effective basis to prepare financial statements to communicate to stakeholders and address their accountability and decision-making needs.

- Governance

  Governance comprises the arrangements put in place to ensure that the intended outcomes of the transition to accrual basis IPSAS are defined and achieved based on stakeholders' needs.

- Change Management

  The transition to accrual basis IPSAS results in change, for example which transactions and events are reported. Necessary changes should be embedded in the entity -- the first-time adopter.

- Communications Strategy and Plans

  Public sector entities require clear, trusted channels of communication. These should explain the PFM reform and the improvements in financial information that will be useful for accountability and decision-making purposes of stakeholders, including service recipients and their representatives and resource providers and their representatives.

- Implementation Strategy and Plan (ISP)

  ISPs need to be prepared following the decision to transition to accrual basis IPSAS. The national ISP <u>(if applicable)</u> should be written at a strategic level. There may also be sectoral ISPs, for example, local government. More detailed ISPs prepared at individual entity level should consider issues such as IT systems (e.g., accounting software) and processes and procedures.

- Capacity Building

  The transition to accrual basis IPSAS requires education and training of stakeholders at different levels and at different stages of the transition and once IPSAS is applied in full.

- Accounting Standards and Policies

  A jurisdiction planning to migrate its public sector to an accrual basis financial accounting and reporting framework might select IPSAS with or without adaptation, or another basis of accounting based on IPSAS.

  It is generally appropriate and helpful to consider implementing IPSAS by topic, set out in paragraph AG4 and AG5 of IPSAS 33.

  Accounting standards require the development of reliable models for recognizing and measuring the related items, which a first-time adopter should develop during the planning and preparation phase and for which the transition period described in paragraph AG8 of IPSAS 33 may be used. Such accounting models may be required for the recognition and/or measurement of the items set out in the Application Guidance of IPSAS 33, for example: Property, plant, and equipment, revenues, and financial instruments.

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED 91).

Example 1 – Reconciliations required by paragraph 29 of IPSAS 33

IE1. Paragraph 29 of IPSAS 33 requires a first-time adopter to present a reconciliation of its closing balances reported under its previous basis of accounting to its net assets/equity in accordance with IPSAS for its first transitional IPSAS financial statements or its first IPSAS financial statements. A reconciliation is also presented of its accumulated surplus or deficit in accordance with its previous basis of accounting to its accumulated surplus or deficit at the date of adoption of IPSAS. A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present the reconciliations required in paragraph 29.

For example, a first-time adopter, which previously applied a modified-accrual basis of accounting, adopts accrual basis IPSAS on January 1, 20X4 and elects to present comparative information as permitted in IPSAS 33. The first-time adopter shall, in accordance with paragraph 29 of IPSAS 33, present a reconciliation in the notes to its transitional IPSAS financial statements that provides sufficient detail to enable users to understand the material adjustments to the opening statement of financial position as at January 1, 20X4, and the restated comparative statement of financial performance, where applicable.

The following illustrates how the entity in the example would present the adjustments to the opening statement of financial position:

		Closing balance under previous basis of accounting	**IPSAS adjustments**	**Opening statement of financial position**
	Notes	**December 31, 20X3**		**January 1, 20X4**
		CU	**CU**	**CU**
Assets				
Current assets				
Cash and cash equivalents	1	2,000	800	2,800
Receivables from exchange transactions	2	1,500	(600)	900
Inventories	3		200	200
Total current assets		3,500	400	3,900

	Notes	Closing balance under previous basis of accounting December 31, 20X3	IPSAS adjustments	Opening statement of financial position January 1, 20X4
		CU	CU	CU
Non-current assets				
Property, plant, and equipment	4	300	(100)	200
Investments	1	3,800	(800)	3,000
Total non-current assets		4,100	(900)	3,200
Total assets		7,600	(500)	7,100
Liabilities and net assets				
Current liabilities				
Deferred revenue	5		700	700
Employee benefit liability	6		50	50
Non-exchange liabilities	7	4,000	500	4,500
Total current liabilities		4,000	1,250	5,250
Non-current liabilities				
Employee benefit liability	6		250	250
Concessionary borrowings	8	1,000	(400)	600
Total non-current liabilities		1,000	(150)	850
Total liabilities		5,000	1,100	6,100

	Notes	Closing balance under previous basis of accounting	IPSAS adjustments	Opening statement of financial position
		December 31, 20X3		**January 1, 20X4**
		CU	**CU**	**CU**
Net assets				
Accumulated surpluses and deficits		2,600	(1,600)	1,000
Total net assets		2,600	(1,600)	1,000
Total liabilities and net assets		7,600	(500)	7,100

The following illustrates the reconciliation of the balance of net assets/equity reported in accordance with the entity's previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSAS together with the related disclosures.

Reconciliation of net assets on January 1, 20X4

The changes due to IPSAS implementation had a net negative effect of CU 1,600 on accumulated surpluses or deficits/net assets, as shown in the table below:

	Notes	Adjustments January 1, 20X4
		CU
Adjustment to allowance for credit losses on accounts receivable	2	(600)
Recognition of inventories	3	200
Adjustment to buildings	4	(100)
Recognition of deferred revenue	5	(700)
Recognition of employee benefit liability	6	(300)
Adjustment to foreign exchange liabilities (unrealized exchange loss)	7	(500)
Adjustment to concessionary borrowings	8	400
Total IPSAS adjustments		**(1,600)**
Closing balance net assets December 31, 20X3		**2,600**
Opening balance net assets January 1, 20X4		**1,000**

Notes

1. **Cash equivalents**

Time deposits amounting to CU 800 were reclassified from investments to cash and cash equivalents as required by IPSAS.

2. **Adjustment to allowance for credit losses accounts receivable**

To comply with IPSAS, an adjustment of CU 600 was recorded to reflect the increase of the allowance for credit losses on accounts receivable at the beginning of the year.

3. **Initial recognition of inventories**

To comply with IPSAS, inventories are recognized in the statement of financial position for the first time as of January 1, 20X4 for CU 200. Inventories were not recognized under the previous accounting policies.

4. **Adjustment to buildings**

The entity has adopted the transitional provision for property, plant, and equipment. The only asset class recognized as of January 1, 20X4 is buildings. Under the previous accounting policies, buildings were included in the financial statements at historical cost without depreciation or impairment. An adjustment of CU 100 for accumulated depreciation and impairment for buildings was recognized as an adjustment to net assets/equity.

5. **Initial recognition of deferred revenue**

An adjustment of CU 700 was required to the opening balance of net assets/equity to recognize as deferred revenue, cash receipts from telecommunications companies for a 15-year license for 5G-networks that had been recognized in surplus or deficit in the year of receipts.

6. **Initial recognition of employee benefit liability**

Liabilities relating to pensions as per actuarial valuations have been recognized in the financial statements based on their valuation as of January 1, 20X4. These post-employment benefit liabilities (totaling CU 300) have been classified as current (250) and non-current (50).

7. **Adjustment to foreign exchange liabilities (unrealized exchange loss)**

Liabilities denominated in foreign currencies are now revalued at closing rates at reporting date. Going forward, unrealized foreign exchange gains and losses will be reported in surplus or deficit. Under the previous basis of accounting, any unrealized foreign exchange gains and losses were disclosed in the notes to the financial statements and were recognized in the financial statements in the accounting period in which they realized. An adjustment of CU 500 for accumulated unrealized exchange gains and losses was recognized as an adjustment to net assets/equity.

8. **Adjustment to concessionary borrowings**

In the past, a foreign government provided an interest-free loan for the construction of a bridge. The loan of CU 1,000 is repayable over a 30-year period with effect from the first year of the completion of the bridge. The loan was adjusted by CU 400 to reflect the amortized cost of the loan using the effective interest rate of 1.23%.

Example 2 – Reconciliations required by paragraph 33 of IPSAS 33

IE2. Paragraph 33 of IPSAS 33 requires a first-time adopter that elects to apply the exemptions not to recognize and/or measure items, to present a reconciliation of items that have been recognized and/or measured during the reporting period which were not recognized and/or measured in the previous financial statements.

For example, a first-time adopter whose date of adoption is January 1, 20X2 adopts the exemption in IPSAS 33 that allows it to not recognize investment property for a period of three years. The first-time adopter applies this exemption and only recognizes the investment property at the end of year three, i.e. December 31, 20X4. As an adjustment is made to the opening balance of accumulated surplus or deficit as at January 1, 20X4 in recognizing the investment property, paragraph 32 requires the first-time adopter to present a reconciliation in its notes to the financial statements for the year ending December 31, 20X4 to allow users to understand the adjustment that was made following the recognition of the investment property.

The following illustrates the related disclosures the entity in the example could provide in its financial statements for the year ended December 31, 20X4:

Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X4

	Attributable to owners of the controlling entity		**Total net assets/equity**
	Accumulated surpluses/ deficits	**Other reserves**	
	CU	**CU**	**CU**
Opening balance as at January 1, 20X4	210,000	10,000	220,000
Measurement of investment property at deemed cost in accordance with IPSAS 33 (see note 34)	1,500,000		1,500,000
Restated opening balance as at January 1,20X4	1,710,000	10,000	1,720,000
Surplus for the period	5,000		5,000
Balance as at December 31, 20X4	1,715,000	10,000	1,725,000

Notes to the financial statements of Public Sector Entity X as at December 31, 20X4:

Note 34 – Investment Property

	December 31, 20X4
	CU
Opening balance of investment property as previously reported	-
Investment property measured at deemed cost as provided in IPSAS 33 on January 1, 20X4	1,500,000
Restated opening balance of investment property at January 1,20X4	1,500,000

Transitional exemptions adopted in IPSAS 33 on adoption of accrual basis and during transition to IPSAS

On adoption of accrual basis IPSAS on January 1, 20X2, Public Sector Entity X applied a transitional exemption in IPSAS 33 that allowed it to not recognize its investment property in its financial statements for each of the two years following the date of adoption. In the year ended December 31, 20X4, Public Sector Entity X used deemed cost in measuring investment property as permitted by IPSAS 33 as reliable cost information about its investment properties was not available. As a result, Public Sector Entity X restated its opening balance of investment property as CU 1,500,000 on January 1, 20X4.

Note 54 – Reconciliation of net assets/equity and accumulated surpluses or deficits on January 1, 20X4

Reconciliation of net assets/equity as on January 1, 20X4

	Net assets/equity as on January 1, 20X4 **CU**
Opening balance of net assets/equity as on January 1, 20X4 as previously reported	220,000
Recognition of investment property at deemed cost (see note 34)	1,500,000
Restated opening balance of net assets/equity as on January 1, 20X4	**1,720,000**

Reconciliation of accumulated surpluses or deficits on January 1, 20X4

	Net assets/equity as on January 1, 20X4 **CU**
Opening balance of accumulated surpluses or deficits as on January 1, 20X4 as previously reported	210,000
Recognition of investment property at deemed cost (see note34)	1,500,000
Restated opening balance of accumulated surpluses or deficits as on January 1,20X4	**1,710,000**

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