International Public Sector Accounting Standards Board®

Handbook of International Public Sector Accounting Pronouncements

2024 Edition
Volume I

IPSAS®

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This publication was published by the International Federation of Accountants (IFAC®). Its mission is to serve the public interest and strengthen the accountancy profession by supporting the development of high-quality international standards, promoting the adoption and implementation of these standards, building the capacity of professional accountancy organizations, and speaking out on public interest issues.

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

IPSAS®

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HANDBOOK OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING PRONOUNCEMENTS

2024 EDITION

How this Handbook is Arranged

The contents of this Handbook are arranged by section as follows:

INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

The International Public Sector Accounting Standards Board® (IPSASB®) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards™ (IPSAS® Standards). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSAS Standards will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its standards by commenting on the proposals set out in its Exposure Drafts and Consultation Papers.

The IPSASB issues IPSAS Standards dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual IPSAS Standards are based on IFRS® Accounting Standards, issued by the International Accounting Standards Board® (IASB®) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRS Accounting Standards.

The adoption of IPSAS Standards by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSAS Standards and the harmonization of national requirements with IPSAS Standards. Financial statements should be described as complying with IPSAS Standards only if they comply with all the requirements of each applicable IPSAS Standard.

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THE INTERNATIONAL FEDERATION OF ACCOUNTANTS' ROLE

The International Federation of Accountants® (IFAC®), with its member organizations, serves the public interest by enhancing the relevance, reputation, and value of the global accountancy profession. It speaks out and engages as the voice for the global profession, leads and develops a future-ready profession, and contributes to and promotes the development, adoption, and implementation of high-quality international standards. Founded in 1977, IFAC is comprised of 180 members and associates in 135 countries and jurisdictions, representing more than 3 million accountants in public practice, education, government service, industry, and commerce.

As part of its public interest mandate, IFAC contributes to the development, adoption, and implementation of high-quality international public sector accounting standards, primarily through its support of the International Public Sector Accounting Standards Board® (IPSASB®). IFAC provides human resources, facilities management, communications support, and funding to this independent standard-setting board, and facilitates the nominations and selection process for board members.

The IPSASB sets its own agendas and approves its publications in accordance with its due process and without IFAC's involvement. IFAC has no ability to influence the agendas or publications. IFAC publishes the handbooks, standards, and other publications and owns the copyrights.

The IPSASB's independence is safeguarded in a number of ways:

- Full transparency, both in terms of due process for standard-setting, as well as public access to agenda materials, meetings, and a published basis for conclusions with each final standard;
- The involvement of observers in the standard-setting process; and
- The requirement that IPSASB members, as well as nominating/employing organizations, commit to the board's independence, integrity, and public interest mission.

The IPSASB Consultative Advisory Group (CAG) is an integral and important part of the IPSASB's formal process of consultation. Representatives of CAG member organizations provide advice on numerous areas, including:

- The IPSASB's strategy, work program and agenda, including project priorities;
- IPSASB's projects, including views on key technical issues or matters that may impede the adoption or effective implementation of IPSAS Standards; and
- Other matters of relevance to the standard-setting activities of the IPSASB.
- The governance and standard-setting activities of the IPSASB are overseen by the Public Interest Committee (PIC), to ensure that they follow due process and reflect the public interest.

The PIC is comprised of individuals with expertise in public sector or financial reporting, and professional engagement in organizations that have an interest in promoting high-quality and internationally comparable financial information.

Visit the IFAC website at www.ifac.org for further information

SCOPE OF THIS HANDBOOK
2024 EDITION

This Handbook brings together for continuing reference background information about the International Federation of Accountants (IFAC) and the official text of the International Public Sector Accounting Standards (IPSAS) and other publications issued by the IPSASB as of January 31, 2024.

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CHANGES OF SUBSTANCE FROM THE 2022 EDITION OF THE HANDBOOK

Pronouncements Issued by the International Public Sector Accounting Standards Board

This Handbook contains the complete set of the International Public Sector Accounting Standards Board's (IPSASB's) pronouncements on public sector financial reporting.

References

This Handbook contains references to International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The approved text of the IAS® Standards and the IFRS® Accounting Standards is that published by the IASB in the English language, and copies may be obtained directly from IFRS Foundation, Customer Service, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD, United Kingdom.

E-mail: publications@ifrs.org

Internet: www.ifrs.org

New Standards

The IPSASB approved the following Standards, which are included in this Handbook:

- IPSAS 44, *Non-Current Assets Held for Sale and Discontinued Operations* (issued May 2022);
- *Reporting Sustainability Program Information—Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* (issued May 2023);
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023);
- IPSAS 46, *Measurement* (issued May 2023);
- IPSAS 47, *Revenue* (issued May 2023);
- IPSAS 48, *Transfer Expenses* (issued May 2023); and
- IPSAS 49, *Retirement Benefit Plans* (issued November 2023).

These are effective from the date noted in the Standard.

These Standards resulted in a number of consequential amendments to other IPSAS. These amendments are effective from the dates noted in the Standards.

Updated Chapters of the Conceptual Framework

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities was originally published in October 2014. In 2023, Chapters 3, 5, and 7 were updated.

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PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

History of the Preface

The *Preface* was issued in 2000.

In November 2004 the IPSASB issued a revised *Preface*.

In December 2006 the IPSASB amended the *Preface*.

In March 2012 the IPSASB issued a revised *Preface*.

In April 2016 the IPSASB issued a revised *Preface.*

PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Introduction

1. This *Preface* to the International Public Sector Accounting Standards (IPSAS) sets out the objectives of the *International Public Sector Accounting Standards Board* (IPSASB) and explains the scope and authority of the IPSAS. The *Preface* should be used as a reference for interpreting Consultation Papers, other discussion documents, Exposure Drafts, Recommended Practice Guidelines and Standards developed and issued by the IPSASB.

2. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is "to serve the public interest by contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high quality practices by professional accountants; promoting the value of professional accountants worldwide; and speaking out on public interest issues where the accountancy profession's expertise is most relevant." In pursuing this mission, the IFAC Board has established the IPSASB to function as an independent standard-setting body under the auspices of IFAC.

3. The IPSASB serves the public interest by developing and issuing, under its own authority, accounting standards and other publications for use by public sector entities as described in paragraph 10 below.

4. Information on the IPSASB's membership, terms of office, meeting procedures and due process is set out in the IPSASB's *Terms of Reference*, which are approved by the IFAC Board.

Objective of the IPSASB

5. The objective of the IPSASB is to serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports.

6. This is intended to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making. In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate; and also promotes the acceptance of its standards and other publications.

7. In fulfilling its objective, the IPSASB develops and issues the following publications:

   - IPSAS as the standards to be applied in the preparation of general purpose financial reports of public sector entities.
   - Recommended Practice Guidelines (RPG) to provide guidance on good practice that public sector entities are encouraged to follow.
   - Studies to provide advice on financial reporting issues in the public sector. They are based on study of the good practices and most effective methods for dealing with the issues being addressed.
   - Other papers and research reports to provide information that contributes to the body of knowledge about public sector financial reporting issues and developments. They are aimed at providing new information or fresh insights and generally result from research activities such as: literature searches, questionnaire surveys, interviews, experiments, case studies and analysis.

Scope and Authority of International Public Sector Accounting Standards

Scope of the Standards

8. The IPSASB develops IPSAS which apply to the accrual basis of accounting and IPSAS which apply to the cash basis of accounting.

9. IPSAS set out requirements dealing with transactions and other events in general purpose financial reports. General purpose financial reports are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

10. The IPSAS are designed to apply to public sector entities[1] that meet all the following criteria:

    (a) Are responsible for the delivery of services[2] to benefit the public and/or to redistribute income and wealth;

    (b) (Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and

    (c) Do not have a primary objective to make profits.

11. Any limitation of the applicability of specific IPSAS is made clear in those standards. IPSAS are not meant to apply to immaterial items.

12. The IPSASB has adopted the policy that all paragraphs in IPSAS shall have equal authority, and that the authority of a particular provision shall be determined by the language used. Consequently, IPSAS approved by the IPSASB after January 1, 2006 include paragraphs in bold and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual IPSAS should be read in the context of the objective and Basis for Conclusions (if any) stated in that IPSAS and this *Preface*.

IPSAS for the Accrual and Cash Bases

13. The IPSASB develops accrual IPSAS that:

    - Are converged with International Financial Reporting Standards (IFRS) issued by the IASB by adapting them to a public sector context where appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original text of the IFRS unless there is a significant public sector issue which warrants a departure; and

    - Deals with public sector financial reporting issues that are either not addressed by adapting IFRS or for which IFRS have not been developed by the IASB.

14. [Deleted]

15. The IPSASB has also issued a comprehensive[1] Cash Basis IPSAS that includes mandatory and encouraged disclosures sections.

Moving from the Cash Basis to the Accrual Basis

16. The Cash Basis IPSAS encourages an entity to voluntarily disclose accrual based information, although its core financial statements will nonetheless be prepared under the cash basis of accounting. An entity in the process of moving from cash accounting to accrual accounting may wish to include particular accrual based disclosures during this process. The status (for example, audited or unaudited) and location of additional

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[1] Paragraph 1.8 of The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities identifies a wide range of public sector entities for which IPSAS are designed.

[2] Services encompasses goods, services and policy advice, including to other public sector entities.

information (for example, in the notes to the financial statements or in a separate supplementary section of the financial report) will depend on the characteristics of the information (for example, reliability and completeness) and any legislation or regulations governing financial reporting within a jurisdiction.

17. The IPSASB also attempts to facilitate compliance with accrual based IPSAS through the use of transitional provisions in certain standards. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of a specific accrual based IPSAS or provide relief from certain requirements when initially applying an IPSAS. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSAS. Having decided to adopt accrual accounting in accordance with IPSAS, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the entity reports in full accordance with all accrual based IPSAS.

18. Paragraph 28 of IPSAS 1, *Presentation of Financial Statements* includes the following requirement:

    An entity whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS.

19. IPSAS 1 also requires disclosure of the extent to which the entity has applied any transitional provisions.

Authority of the International Public Sector Accounting Standards

20. Within each jurisdiction, regulations may govern the issue of general purpose financial reports by public sector entities. These regulations may be in the form of statutory reporting requirements, financial reporting directives and instructions, and/or accounting standards promulgated by governments, regulatory bodies and/or professional accounting bodies in the jurisdiction concerned.

21. The IPSASB believes that the adoption of IPSAS, together with disclosure of compliance with them, will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities. This, in turn, is likely to strengthen public finance management leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

22. The IPSASB strongly encourages the adoption of IPSAS and the harmonization of national requirements with IPSAS. The IPSASB acknowledges the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. Some sovereign governments and national standard-setters have already developed accounting standards that apply to governments and public sector entities within their jurisdiction. IPSAS may assist such standard-setters in the development of new standards or in the revision of existing standards in order to contribute to greater comparability. IPSAS are likely to be of considerable use to jurisdictions that have not yet developed accounting standards for governments and public sector entities.

23. Standing alone, neither the IPSASB nor the accounting profession has the power to require compliance with IPSAS. The success of the IPSASB's efforts is dependent upon the recognition and support for its work from many different interested groups acting within the limits of their own jurisdiction.

Language

24. The official text of the IPSAS and other publications is that approved by the IPSASB in the English language. Member bodies of IFAC are authorized to prepare, after obtaining IFAC approval, translations of such pronouncements at their own cost, to be issued in the language of the own jurisdictions as appropriate.

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

History of the Conceptual Framework

Chapters 1–4 of the *Conceptual Framework* were issued in January 2013.

The preface and Chapters 5–8 of the *Conceptual Framework* were issued in October 2014.

Chapters 3, 5, and 7 were updated in 2023.

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

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The Preface to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Introduction

1. The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)* establishes the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSAS) and Recommended Practice Guidelines (RPG) applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities[1].

2. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows. GPFRs provide information to users for accountability and decision-making purposes. Therefore, users of the GPFRs of public sector entities need information to support assessments of such matters as:

    - Whether the entity provided its services to constituents in an efficient and effective manner;
    - The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
    - To what extent the burden on future-year taxpayers of paying for current services has changed; and
    - Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

3. Governments generally have broad powers, including the ability to establish and enforce legal requirements, and to change those requirements. Globally the public sector varies considerably in both its constitutional arrangements and its methods of operation. However, governance in the public sector generally involves the holding to account of the executive by a legislative body (or equivalent).

4. The following sections highlight characteristics of the public sector that the IPSASB has considered in the development of the Conceptual Framework.

The Volume and Financial Significance of Non-Exchange Transactions

5. In a non-exchange transaction, an entity receives value from another party without directly giving approximately equal value in exchange. Such transactions are common in the public sector. The level and quality of services received by an individual, or group of individuals, is not normally directly related to the level of taxes assessed. An individual or group may have to pay a charge or fee and/or may have had to make specified contributions to access certain services. However, such transactions are, generally, of a non-exchange nature, because the amount that an individual or group of individuals obtains in benefits will not be approximately equal to the amount of any fees paid or contributions made by the individual or group. The nature of non-exchange transactions may have an impact on how they are recognized, measured, and presented to best support assessments of the entity by service recipients and resource providers.

6. Taxation is a legally mandated, compulsory non-exchange transaction between individuals or entities and the government. Tax-raising powers can vary considerably, dependent upon the relationship between the powers of the national government and those of sub-national governments and other public sector entities. International public sector entities are largely funded by transfers from national, regional and state governments. Such funding may be governed by treaties and conventions or may be on a voluntary basis.

[1] The public sector includes national and sub-national (regional, state/provincial, and local), governments and related governmental entities. It also includes international public sector organizations.

7. Governments and other public sector entities are accountable to resource providers, particularly to those that provide resources through taxes and other compulsory transactions. Chapter 2, *Objectives and Users of General Purpose Financial Reporting*, discusses the accountability objective of financial reporting.

The Importance of the Approved Budget

8. Most governments and other public sector entities prepare budgets. In many jurisdictions there is a constitutional requirement to prepare and make publicly available a budget approved by the legislature (or equivalent). Legislation often defines the contents of that documentation. The legislature (or equivalent) exercises oversight, and constituents and their elected representatives hold the entity's management financially accountable through the budget and other mechanisms. The approved budget is often the basis for setting taxation levels, and is part of the process for obtaining legislative approval for spending.

9. Because of the approved budget's significance, information that enables users to compare financial results with the budget facilitates an assessment of the extent to which a public sector entity has met its financial objectives. Such information promotes accountability and informs decision making in subsequent budgets. Reporting against budget is commonly the mechanism for demonstrating compliance with legal requirements relating to the public finances. The needs of users for budget information is discussed in Chapter 2.

The Nature of Public Sector Programs and the Longevity of the Public Sector

10. Many public sector programs are long term and the ability to meet commitments depends upon future taxation and contributions. Many commitments arising from public sector programs and powers to levy future taxation do not meet the definitions of a liability and an asset in *Chapter 5, Elements in Financial Statements*. Therefore, such commitments and powers are not recognized in the financial statements.

11. Consequently, the statement of financial position and statement of financial performance cannot provide all the information that users need on long-term programs, particularly those delivering social benefits. The financial consequences of many decisions will have an impact many years or even decades into the future, so GPFRs containing prospective financial information on the long-term sustainability of an entity's finances and key programs are necessary for accountability and decision-making purposes as discussed in Chapter 2.

12. Although political control may change regularly, nation states generally have very long existences. While they may encounter severe financial difficulties and may default on sovereign debt obligations, nation states continue to exist. If sub-national entities get into financial difficulties, national governments might act as lenders of last resort or provide large scale guarantees. The main service delivery commitments of sub-national entities may continue to be funded by a higher level of government. In other cases public sector entities that are unable to meet their liabilities as they fall due may continue to exist by restructuring their operations.

13. The going concern principle underpins the preparation of the financial statements. Interpretation of the principle needs to reflect the issues discussed in paragraphs 11 and 12.

The Nature and Purpose of Assets and Liabilities in the Public Sector

14. In the public sector, the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows[2]. Because of the types of services provided, a significant proportion of assets used by public sector entities is specialized—for example, roads and military assets. There may be a limited market for such assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the

[2] Many public sector assets will generate cash flows, but this is often not the main reason for holding them.

measurement of such assets. Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, discusses measurement bases for assets.

15. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.

16. Governments often have powers over natural and other resources such as mineral reserves, water, fishing grounds, forests and the electromagnetic spectrum. These powers allow governments to grant licenses for the use of such resources or to obtain royalties and taxes from their use. The definition of an asset and recognition criteria are discussed in Chapters 5 and 6, *Recognition in Financial Statements*.

17. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation. The definition of a liability and recognition criteria are discussed in Chapters 5 and 6.

The Regulatory Role of Public Sector Entities

18. Many governments and other public sector entities have powers to regulate entities operating in certain sectors of the economy, either directly or through specifically created agencies. The underlying public policy rationale for regulation is to safeguard the public interest in accordance with specified public policy objectives. Regulatory intervention can also occur where there are market imperfections or market failure for particular services, or to mitigate against factors such as pollution, the impact of which is not transmitted through pricing. Such regulatory activities are carried out in accordance with legal processes.

19. Governments may also regulate themselves and other public sector entities. Judgment may be necessary to determine whether such regulations create rights of, and obligations on, public sector entities that require recognition as assets and liabilities, or whether the public sector entity's ability to amend such regulations has an impact on how such rights and obligations are accounted for. Chapter 5 considers rights and obligations.

Relationship to Statistical Reporting

20. Many governments produce two types of ex-post financial information: (a) government finance statistics (GFS) on the general government sector (GGS) for the purpose of macroeconomic analysis and decision making, and (b) general purpose financial statements (financial statements) for accountability and decision making at an entity level, including financial statements for the whole of government reporting entity.

21. The overarching standards for macro-economic statistics are set out in the *System of National Accounts* (SNA). The SNA is a framework for a systematic and detailed description of the national economy and its components, including the GGS. These standards are then implemented at national or regional level, for example in the European Union through the European System of Accounts. GFS reporting guidelines include the International Monetary Fund's Government Finance Statistics Manual.

22. IPSAS financial statements and GFS reports have much in common. Both reporting frameworks are concerned with (a) financial, accrual-based information, (b) a government's assets, liabilities, revenue, and expenses and (c) comprehensive information on cash flows. There is considerable overlap between the two reporting frameworks that underpin this information.

23. However, IPSAS and GFS reporting guidelines have different objectives. The objectives of financial reporting by public sector entities are to provide information about the reporting entity that is useful to users of GPFRs for accountability purposes and decision-making purposes. GFS reports are used to (a) analyze fiscal policy options, make policy and evaluate the impact of fiscal policies, (b) determine the impact on the economy, and (c) compare fiscal outcomes nationally and internationally. The focus is on evaluating the impact of the GGS and broader public sector on the economy, within the complete macroeconomic statistics framework.

24. The different objectives and focus on different reporting entities lead to the different treatment of some transactions and events. The removal of differences between the two accounting frameworks that are not fundamental to their different objectives and reporting entities, and use of a single integrated financial information system to generate both IPSAS-compliant financial statements and GFS reports can provide benefits to users in terms of report quality, timeliness and understandability. These matters and their implications were considered in the development of Chapters 2, 4, *Reporting Entity*, and 7, which discuss the objectives of financial reporting, the reporting entity and measurement.

CHAPTER 1: ROLE AND AUTHORITY OF THE CONCEPTUAL FRAMEWORK

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Role of the Conceptual Framework

1.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSAS) and Recommended Practice Guidelines (RPG) applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

Authority of the Conceptual Framework

1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSAS, nor does it override the requirements of IPSAS Standards or RPG. Authoritative requirements relating to the recognition, measurement and presentation of transactions and other events and activities that are reported in GPFRs are specified in IPSAS.

1.3 The Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with by IPSAS or RPG. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

General Purpose Financial Reports

1.4 GPFRs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities. GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

1.5 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFRs useful for their purposes, GPFRs are not developed to specifically respond to their particular information needs.

1.6 GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. GPFRs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements.

1.7 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the next chapter.

Applicability of the Conceptual Framework

1.8 The Conceptual Framework applies to financial reporting by public sector entities that apply IPSAS. Therefore, it applies to GPFRs of national, regional, state/provincial and local governments. It also applies to a wide range of other public sector entities including:

- Government ministries, departments, programs, boards, commissions, agencies;
- Public sector social security funds, trusts, and statutory authorities; and
- International governmental organizations.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Role and Authority of the Conceptual Framework

BC1.1 The Conceptual Framework identifies the concepts that the IPSASB will apply in developing IPSAS and RPG intended to assist preparers and others in dealing with financial reporting issues. IPSAS specify authoritative requirements. IPSAS and RPG are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.

BC1.2 The Conceptual Framework underpins the development of IPSAS. Therefore, it has relevance for all entities that apply IPSAS. GPFR prepared at the whole-of-government level in accordance with IPSAS may also consolidate all governmental entities whether or not those entities have complied with IPSAS in their GPFR.

Special Purpose Financial Reports

BC1.3 Standard setters often describe as "special purpose financial reports" those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. The IPSASB is aware that the requirements of IPSAS have been (and may continue to be) applied effectively and usefully in the preparation of some special purpose financial reports.

General Purpose Financial Reports

BC1.4 The Conceptual Framework acknowledges that, to respond to users' information needs, GPFRs may include information that enhances, complements, and supplements the financial statements. Therefore, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. Chapter 2, *Objectives and Users of General Purpose Financial Reporting*, identifies the objectives of financial reporting and the primary users of GPFRs. It also outlines the consequences of the primary users' likely information needs for what may be encompassed within the scope of financial reporting.

CHAPTER 2: OBJECTIVES AND USERS OF GENERAL PURPOSE FINANCIAL REPORTING

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Objectives of Financial Reporting

2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes").

2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.

2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as "service recipients and resource providers", unless identified otherwise).

2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

2.6 GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Accountability and Decision Making

2.7 The primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non-exchange transaction[3] and in a non-competitive environment.

2.8 Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

2.9 Service recipients and resource providers will also require information as input for making decisions. For example:

- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and
- Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a particular public sector entity or whether to purchase or consume the services provided. However, service recipients and resource providers can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.

2.10 Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

Information Needs of Service Recipients and Resource Providers

2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

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[3] Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equally value to another entity in exchange. Non-exchange transactions are transactions in which an entity receives value from another entity without directly giving approximately equal value in exchange.

- The performance of the entity during the reporting period in, for example:
  - Meeting its service delivery and other operating and financial objectives;
  - Managing the resources it is responsible for;
  - Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
  - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control;
  - The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

2.12 The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.13 Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also require information about the entity's anticipated future service delivery activities and resource needs.

Information Provided by General Purpose Financial Reports

Financial Position, Financial Performance, and Cash Flows

2.14 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

2.15 Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will assist users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

2.16 Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

2.17 Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:

- Compliance with approved budgets and other authority governing its operations;
- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long-term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs.

Budget Information and Compliance with Legislation or Other Authority Governing the Raising and Use of Resources

2.18 Typically, a government or other public sector entity prepares, approves and makes publicly available an annual budget. The approved budget provides interested parties with financial information about the entity's operational plans for the forthcoming period, its capital needs and, often, its service delivery objectives and expectations. It is used to justify the raising of resources from taxpayers and other resource providers, and establishes the authority for expenditure of resources.

2.19 Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.

2.20 GPFRs provide information about the financial results (whether described as "surplus or deficit," "profit or loss," or by other terms), performance and cash flows of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service delivery achievements.

2.21 The inclusion within GPFRs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the entity comply with the estimates reflected in approved budgets, and the entity's adherence to relevant legislation or other authority governing the raising and use of resources, is important in determining how well a public sector entity has met its financial objectives. Such information is necessary for the discharge of a government's or other public sector entity's accountability to its constituents, enhances the assessment of the financial performance of the entity and will inform decision making.

Service Delivery Achievements

2.22 The primary objective of governments and most public sector entities is to provide needed services to constituents. Consequently, the financial performance of governments and most public sector entities will not be fully or adequately reflected in any measure of financial results. Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.

2.23 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the reporting period will provide relevant information about the achievement of service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.

2.24 Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting such information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Non-financial Information

2.25 Given the longevity of governments and many government programs, the financial consequences of many decisions made in the reporting period may only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.

2.26 Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:

- Constituents who will be dependent on those services in the future; and
- Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.

2.27 Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will support assessments of the sustainability of service delivery by a government or other public sector entity, enhance the accountability of the entity and provide additional information useful for decision-making purposes.

Explanatory Information

2.28 Information about the major factors underlying the financial and service delivery performance of the entity during the reporting period and the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements

2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements, and supplements those statements.

2.30 While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other chapters of the Conceptual Framework and in the development of individual IPSAS or RPG, as appropriate.

Other Sources of Information

2.31 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, it is unlikely that GPFRs will provide all the information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts issued by governments provide more detailed financial and non-financial information about the financial characteristics of the plans of governments and other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Primary User Groups

BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Conceptual Framework should identify the primary users of GPFRs. Many respondents to the initial Consultation Paper[4] expressed the view that the Framework should identify the primary users of GPFRs, and the IPSASB should focus on the information needs of those primary users in developing IPSAS. The IPSASB was persuaded by these views.

Identifying the Primary User Groups

BC2.2 Conceptual Framework Exposure Draft 1, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics*; and Reporting Entity (the Exposure Draft), identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFRs. It explained that, while the IPSASB will develop IPSAS and RPG on the contents of GPFRs to respond to the information needs of these primary users, GPFRs may still be used by others with an interest in financial reporting, and may provide information of use to those other users.

BC2.3 Many respondents to the Exposure Draft expressed support for the identification of service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs. However, others were of the view that the public, citizens or legislature should be identified as the primary or most important users of GPFRs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFRs. Some respondents also expressed the view that only resource providers and their representatives should be identified as the primary users of GPFRs of public sector entities. They explained that it is unlikely that GPFRs would be able to respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFRs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the information needs of a single user group. They also noted that GPFRs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, given the objectives of financial reporting by public sector entities, the IPSASB remains of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because:

- Governments and other public sector entities are accountable to those that depend on them to use resources to deliver necessary services, as well as to those that provide them with the resources that enable the delivery of those services; and
- GPFRs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision-making purposes.

[4] Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*.

As such, GPFRs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and to international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

BC2.5 The IPSASB accepts that some information in GPFRs may be of more interest and greater use to some users than others. The IPSASB also accepts that, in developing IPSAS and RPG, it will need to consider and, in some cases, balance the needs of different groups of primary users. However, the IPSASB does not believe that such matters invalidate the identification of both service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs.

BC2.6 The IPSASB's views on the relationship between the primary user groups identified by respondents, and service recipients and resource providers are further elaborated below.

Citizens

BC2.7 The IPSASB acknowledges the importance of citizens, the public and their representatives as users of GPFRs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing their potential information needs. This is because citizens encompass many individuals with a potentially wide range of diverse information needs—focusing on the information needs of citizens as service recipients and resource providers enables the IPSASB to draw together those diverse interests and explore what information needs GPFRs should attempt to respond to. The IPSASB is also of the view that, in developing IPSAS, it is appropriate that it has the capacity to consider the information needs of a range of service recipients and resource providers who may not be citizens (including donors and lenders) and do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

Resource Providers

BC2.8 The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary and/or promised services. In addition, it has been noted that in some jurisdictions resource providers are primarily donors or lenders that may have the authority to require the preparation of special purpose financial reports to provide the information they need.

BC2.9 As noted at paragraph BC2.4, the IPSASB has formed a view that both service recipients and resource providers and their representatives are primary users of GPFRs. The IPSASB is of the view that the Conceptual Framework should not exclude citizens who may be interested in GPFRs in their capacity as service recipients from the potential users of GPFRs, or identify their information needs as less important than those of resource providers. The IPSASB is also of the view that it is not appropriate that donors, lenders, and others that provide resources on a voluntary or involuntary basis to governments and other public sector entities be excluded as potential users of GPFRs, or that their information needs be identified as less important than those of service recipients.

The Legislature

BC2.10 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed special purpose financial and other reports to provide that information. However, they may also use the information provided by GPFRs, as well as information provided by special purpose financial reports, for input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

BC2.11 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the legislature or governing body. However, they may not have the authority to require the preparation of financial reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

Other User Groups

BC2.12 In developing the Conceptual Framework, the IPSASB considered a wide range of other potential users of GPFRs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (such as public sector and private sector resource providers) should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs will respond appropriately to the information needs of subgroups of service recipients and resource providers.

BC2.13 The information provided by GPFRs may be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and for other economic analytical purposes. However, GPFRs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or to resource providers (such as citizen advocacy groups, bond rating agencies, credit analysts and public interest groups) are likely to find the information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

The Objectives of Financial Reporting

BC2.14 Many respondents to the Exposure Draft agreed that the provision of information useful for both accountability and decision-making purposes should be identified as the objectives of financial reporting by public sector entities. Some respondents advocated that only accountability be identified as the single or dominant objective of financial reporting by public sector entities; other respondents advocated that decision making should be identified as the single objective. However, the IPSASB remains of the view that users of GPFRs of public sector entities will require information for both accountability and decision-making purposes.

BC2.15 Some respondents to the Exposure Draft advocated that the link between accountability and decision making be more clearly articulated and the public sector characteristics that underpinned the IPSASB's views on the objectives of financial reporting by public sector entities be identified. The IPSASB has responded positively to these proposals. The Framework has been restructured and clarifications added.

BC2.16 The explanation of accountability and its relationship to decision making and GPFRs has also been strengthened. In this context, the IPSASB acknowledges that the notion of accountability reflected in this

Framework is broad. It encompasses the provision of information about the entity's management of the resources entrusted to it, and information useful to users in assessing the sustainability of the activities of the entity and the continuity of the provision of services over the long term. The IPSASB is of the view that this broad notion of accountability is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and other public sector entities to provide needed services over the long term. However, the IPSASB also recognizes that it is unlikely that GPFRs will provide all the information that service recipients and resource providers need for accountability and decision-making purposes.

The Scope of Financial Reporting—Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements

BC2.17 Many respondents to the Exposure Draft expressed support for the scope of financial reporting and its explanation as proposed by the IPSASB, with some identifying matters for clarification and others noting that projects dealing with the broader scope issues would need to provide guidance on application of the qualitative characteristics such as verifiability and comparability. Other respondents did not support the scope of financial reporting being broader than financial statements, expressing concern that:

- The proposed broad scope dealt with matters which were outside the Terms of Reference of the IPSASB that were in effect at that time; and
- Guidance on matters outside the financial statements, such as non-financial and prospective information, is appropriately a matter for individual governments, or governing bodies or other authority.
- Some respondents to the Exposure Draft also expressed concern that the scope was too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting be included in the Conceptual Framework.

BC2.18 The IPSASB remains of the view that it is necessary that the Conceptual Framework reflect a scope for financial reporting that is more comprehensive than that encompassed by financial statements. This is because:

- The primary objective of governments and other public sector entities is to deliver services to constituents rather than to generate profits;
- Citizens and other eligible residents are dependent on governments and other public sector entities to provide a wide range of services on an on-going basis over the long term. The activities of, and decisions made by, governments and other public sector entities in a particular reporting period can have significant consequences for future generations of service recipients and future generations of taxpayers and other involuntary resource providers; and
- Most governments and other public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring implementation of the approved budget is the primary method by which the legislature exercises oversight, and citizens and their elected representatives hold the government's management financially accountable.

BC2.19 Consequently, the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date, and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision-making purposes, the Conceptual Framework should enable GPFRs to encompass the provision of information that allows users to better assess and place in context the financial statements. Such information may be communicated by separate reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period; its compliance with approved budgets and legislation or other authority governing the raising and use of resources; and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs. In some cases, information about these matters may also be presented in notes to the financial statements.

BC2.20 In making decisions about financial reporting requirements or guidance that extend the information presented in GPFRs beyond financial statements, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information.

Limiting the Scope of Financial Reporting

BC2.21 Some respondents who agreed that the scope of financial reporting should extend beyond the financial statements expressed concern that the scope as proposed in the Exposure Draft was too open ended and/or not adequately explained or justified—in some cases proposing that the scope be limited to enhancement of matters recognized in the financial statements.

BC2.22 The IPSASB has responded to these concerns by clarifying the linkages between the scope of financial reporting and users' information needs, and including additional explanation of the relationship between users' information needs and the information that GPFRs may provide in response. In addition, the IPSASB has clarified that the scope of general purpose financial reporting is limited to the financial statements and information that enhances, complements and supplements the financial statements. Consequently, what is included in the more comprehensive scope of financial reporting will be derived from financial statements, and limited to matters that assist users to better understand and put in context the information included in those statements.

Resource Considerations, Authoritative Requirements and Audit Status

BC2.23 Many respondents, whether supportive or opposed to the proposals in the Exposure Draft, expressed concern that dealing with "broad scope" issues would absorb too much of the IPSASB's resources and limit its ability to deal with financial statement issues. Some respondents to the Exposure Draft also:

- Advocated that the Conceptual Framework clarify that authoritative requirements would only be developed for financial statement matters, broader scope issues being the subject of guidelines; and
- Expressed concern about the audit implications of including non-financial information and prospective information in GPFRs.

BC2.24 While the IPSASB can develop IPSAS which include authoritative requirements, it is not inevitable that it will do so. For example, the IPSASB's publications also include RPG and other documents intended to assist the financial reporting community to respond to particular financial reporting issues. All IPSASB documents which include authoritative requirements or guidance on the presentation of information in GPFRs, whether as part of the financial statements or enhancements to those statements, will be subject to full due process. Therefore, in developing authoritative or other guidance on the presentation of information that broadens the scope of financial reporting, the IPSASB will need to respond to constituent concerns about the proposed technical content and authority of the guidance.

BC2.25 The IPSASB acknowledges the concern of respondents regarding the deployment of the IPSASB's resources to broad scope issues. However, information presented in financial statements remains at the core of financial reporting and, therefore, will remain the primary focus of the IPSAS and RPG developed by the IPSASB. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements.

BC2.26 The IPSASB is of the view that it is not the role of the Conceptual Framework, or the IPSAS and RPG that may be developed consistent with the concepts reflected in the Framework, to attempt to establish the level of audit assurance that should be provided to particular aspects of GPFRs. The qualitative characteristics provide some assurance to users about the quality of information included in GPFRs. However, responsibilities for the audit of financial statements and other components of GPFRs will be established by such matters as the regulatory framework in place in particular jurisdictions and the audit mandate agreed with and/or applying to the entity.

CHAPTER 3: QUALITATIVE CHARACTERISTICS

CONTENTS

Introduction

3.1 GPFRs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.

3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

3.3 Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.

3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory information. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements will be considered in the development of any IPSAS and RPG that deal with such matters.

Relevance

3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to those resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.

3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.

3.12 An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information and information about the achievement of service delivery objectives and outcomes included in GPFRs will need to be presented with the key assumptions that underlie that information and any explanations that are necessary to ensure that its depiction is complete and useful to users.

3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.

3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

3.14A Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that assets and revenue are not overstated, and liabilities and expense are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or revenue or the overstatement of liabilities or expense. Such misstatements can lead to the overstatement or understatement of revenue or expense in future reporting periods.

3.14B The exercise of prudence does not imply a need for asymmetry; for example, a systematic need for more persuasive evidence to support the recognition of assets or revenue than the recognition of liabilities or expense. Particular standards may contain asymmetric requirements where this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.

3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, the volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—for example, this may occur in respect of programs intended to enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.

3.24 Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- Prospective financial and non-financial information previously presented for that reporting period or reporting date;
- Similar information about the same entity for some other period or some other point in time; and
- Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

3.25 Consistent application of accounting principles, policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information *represents* the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.

3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

3.32 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

3.33A GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform characteristic or a uniform set of characteristics at which a particular type of information becomes material.

3.34 Materiality is classified as a constraint on information included in GPFRs in the Conceptual Framework. In developing IPSAS and RPG, the IPSASB will consider the materiality of the consequences of application of a particular accounting policy, basis of preparation or disclosure of a particular item or type of information. Subject to the requirements of any IPSAS, entities preparing GPFRs will also consider the materiality of, for example, the application of a particular accounting policy and the separate disclosure of particular items of information.

Cost-Benefit

3.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.

3.36 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

3.37 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.

3.38 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better decision making by management. The disclosure of information in GPFRs consistent with the concepts identified in the Conceptual Framework and IPSAS and RPG derived from them will enhance and reinforce perceptions of the transparency of financial reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.

3.39 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristic might be sacrificed to some degree to reduce cost.

3.40 In developing IPSAS, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSAS when the benefits of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs.

Balance between the Qualitative Characteristics

3.41 The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.

3.42 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Qualitative Characteristics of Information Included in General Purpose Financial Reports

BC3.1 In developing IPSAS, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs. In making those judgments, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSAS only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in the Conceptual Framework.

BC3.2 Some respondents to the Exposure Draft issued in 2010 (the 2010 Exposure Draft) expressed concern about the application of the qualitative characteristics to all matters that may be presented in GPFRs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands this concern. The IPSASB acknowledges that IPSAS and RPG that deal with the presentation in GPFRs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with.

BC3.3 IPSAS and RPG issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFRs. In the absence of an IPSAS or RPG that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

BC3.4 Having in place accounting systems and processes that are appropriately designed and are operated effectively will enable management to gather and process evidence to support financial reporting. The quality of these systems and processes is a key factor in ensuring the quality of financial information that the entity includes in GPFRs.

Limited Scope Update of Conceptual Framework

BC3.4A In March 2020 the IPSASB initiated a Limited Scope Update of the Conceptual Framework. The Limited Scope Update proposed modifications to the guidance on materiality and the addition of guidance on the role of prudence in the context of faithful representation. The IPSASB approved an updated Chapter 3 in June 2023. The IPSASB started using updated Chapter 3 immediately once approved.

Other Qualitative Characteristics Considered

BC3.5 Some respondents to the 2010 Exposure Draft expressed the view that additional qualitative characteristics should be identified. Those qualitative characteristics included "sincerity," "true and fair view," "credibility," "transparency," and "regularity".

BC3.6 The IPSASB noted that "sincerity" as used in financial reporting has a similar meaning to "true and fair". The IPSASB took the view that sincerity, true and fair view, credibility, and transparency are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSAS that deal with specific reporting issues. Consequently, while important characteristics of GPFRs, they are not identified as separate individual qualitative characteristics in their own right. The IPSASB also took the view that the notion of "regularity" as noted by some respondents is related to the notion of "compliance" as used in the Conceptual Framework—therefore, regularity is not identified as an additional qualitative characteristic.

Relevance

BC3.7 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process the IPSASB seeks input on whether the requirements of a proposed IPSAS or any proposed RPG are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity's obligation to be accountable and to decisions that users may make.

Faithful Representation

BC3.8 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be faithfully represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through an explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic or other phenomena. For example, the presentation of the item "plant and equipment" in a financial statement may represent an aggregate of all of an entity's plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

BC3.9 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic or other phenomenon that it purports to represent.

Faithful Representation or Reliability

BC3.10 At the time of issue of the 2010 Exposure Draft, Appendix A of IPSAS 1, *Presentation of Financial Statements*, identified "reliability" as a qualitative characteristic. It described reliable information as information that is "free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent." Faithful representation, substance over form, neutrality, prudence and completeness were identified as components of reliability. The Conceptual Framework uses the term "faithful representation" rather than "reliability" to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.

BC3.11 Many respondents to the 2010 Exposure Draft supported the use of faithful representation and its explanation in the 2010 Exposure Draft, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms.

BC3.12 The use of the term "faithful representation", or "reliability" for that matter, to describe this qualitative characteristic in the Conceptual Framework will not determine the measurement basis to be adopted in GPFRs, whether historical cost, fair value, cost of fulfillment, or another measurement basis. The IPSASB did not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*. The qualitative characteristics will then operate to ensure that the financial statements faithfully represent the measurement basis or bases reflected in GPFRs.

BC3.13 The IPSASB appreciated the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to those communicated by the term reliability. However, the IPSASB took the view that explanation in the Conceptual Framework that "Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error", and the elaboration of these key features will protect against the loss of any of the qualities that were formerly reflected in the use of the term reliability.

BC3.14 In addition, the IPSASB was advised that the term "reliability" is itself open to different interpretations and subjective judgments, with consequences for the quality of information included in GPFRs. The IPSASB took the view that use of the term "faithful representation" will overcome problems in the interpretation and application of reliability that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

Substance over Form and Prudence

BC3.15 Some respondents to the 2010 Exposure Draft expressed concern that substance over form and prudence were not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

BC3.16 The Conceptual Framework explains that "Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form." Therefore, substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

BC3.17 The IPSASB took the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence was not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

BC3.17A The International Accounting Standards Board (IASB) revised its approach to prudence in the *Conceptual Framework for Financial Reporting*, published in 2018 (the 2018 IASB Conceptual Framework). The IASB did not include prudence as a qualitative characteristic, but, in the context of faithful representation, explained that "neutrality is supported by the exercise of prudence" and that "prudence is the exercise of caution when making judgments under conditions of uncertainty". The IASB characterized the approach adopted in the 2018 Conceptual Framework as "cautious prudence".

BC3.17B The IPSASB also noted that prudence had been the subject of much discussion in the European Public Sector Accounting Standards project.

BC3.17C Because of the above developments, the IPSASB reconsidered the approach to prudence in the 2014 Conceptual Framework: in particular whether prudence should be included as a qualitative characteristic in its own right, or whether guidance on prudence should be included in the context of neutrality and faithful representation.

BC3.17D The IPSASB considered that prudence is insufficiently distinct from faithful representation to justify inclusion as an additional qualitative characteristic. Practical application of the IPSASB Conceptual Framework has also not identified that the non-inclusion of prudence as a qualitative characteristic is problematic.

BC3.17E The IPSASB acknowledged the case for retaining the approach in the 2014 Conceptual Framework on the grounds that an allusion to, and discussion of, prudence, adds little to the notion of neutrality, which itself conveys a lack of bias. However, the IPSASB concluded that clarifying that prudence entails caution in assessing uncertainty in the measurement of all elements would be beneficial and would respond to those who view the absence of references to prudence as a risk. The IPSASB is firmly of the view that caution should be applied consistently rather than focusing disproportionately on assets and revenue. The IPSASB therefore decided to include an explanation in paragraph 3.14A that, in the context of faithful representation, "neutrality is supported by the exercise of prudence", and that "prudence is the exercise of caution when making judgments under conditions of uncertainty". This is consistent with the approach of the IASB in its 2018 Conceptual Framework.

BC3.17F While most respondents to Exposure Draft (ED) 81, issued in February 2022, supported the proposed approach, a minority advocated the adoption of prudence as a qualitative characteristic. The IPSASB acknowledged this view but concluded that the consultation had not raised compelling reasons for the inclusion of prudence as a qualitative characteristic—in particular to substantiate a case that prudence is sufficiently distinct from faithful representation to justify inclusion as an additional qualitative characteristic. The IPSASB therefore confirmed the proposals in ED 81.

BC3.17G Some respondents to ED 81 considered that the contrast between symmetry and asymmetry had been insufficiently explained. The IPSASB agreed with this observation. The IPSASB did not consider that the principle in paragraph 3.14B that the exercise of prudence does not imply a need for asymmetry should be modified. Rather, there should be a clarification of what is meant by "asymmetry" in order to clarify the IPSASB's conclusion. The IPSASB confirmed that the most common attribute of asymmetry is that a higher standard of evidence is required for the recognition of assets and revenue than for liabilities and expenses. While there is no universally accepted definition of asymmetry the IPSASB also considered that the application of asymmetry might include:

- The non-recognition of all unrealized gains; or
- Permitting preparers to measure an asset at an amount lower than an unbiased estimate and a liability at an amount higher than an unbiased estimate under the measurement bases selected for the asset and the liability.

BC3.17H The IPSASB concluded that the introduction of such an approach would not result in information that is relevant and provides a faithful representation of an entity's financial position and financial performance. Therefore, such an approach would not meet the objectives of financial reporting identified in Chapter 2, *Objectives and Users of General Purpose Financial Reporting*.

Understandability

BC3.18 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs.

BC3.19 Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs does not mean that information included in GPFRs need not be understandable or that all efforts should not be undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

Timeliness

BC3.20 The IPSASB recognizes the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, and that undue delay in the provision of information may reduce its usefulness for these purposes. Consequently, timeliness is identified as a qualitative characteristic in the Conceptual Framework.

Comparability

BC3.21 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.

BC3.22 Some respondents to the 2010 Exposure Draft expressed concern that the explanation of the relationship between comparability and consistency might be read as presenting an obstacle to the on-going development of financial reporting. This was because enhancements in financial reporting often involve a revision or change to the accounting principles, policies or basis of preparation currently adopted by the entity.

BC3.23 Consistent application of the same accounting principles, policies and basis of preparation from one period to the next will assist users in assessing the financial position, financial performance and service delivery achievements of the entity compared with previous periods. However, where accounting principles or policies dealing with particular transactions or other events are not prescribed by IPSAS, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the entity from changing its accounting principles or policies to better represent those transactions and events. In these cases, the inclusion in GPFRs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

Verifiability

BC3.24 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. While closely linked to faithful representation, verifiability is identified as a separate qualitative characteristic because information may faithfully represent economic and other phenomena even though it cannot be verified with absolute certainty. In addition, verifiability may work in different ways with faithful representation and other of the qualitative characteristics to contribute to the usefulness of information presented in GPFRs—for example, there may need to be an appropriate balance between the degree of verifiability an item of information may possess and other qualitative characteristics to ensure it is presented in a timely fashion and is relevant.

BC3.25 In developing the qualitative characteristics identified in the Conceptual Framework, the IPSASB considered whether "supportability" should be identified as a separate characteristic for application to information presented in GPFRs outside the financial statements. The IPSASB is of the view that identifying both verifiability and supportability as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFRs faithfully represent the economic and other phenomena that they purport to represent.

BC3.26 Some respondents to the 2010 Exposure Draft expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFRs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB was of the view that the Conceptual Framework provides appropriate guidance on the application of verifiability in respect of these matters—for example it explains that verifiability is not an absolute and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Conceptual Framework also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

Classification of the Qualitative Characteristics and Order of their Application

BC3.27 Some respondents to the 2010 Exposure Draft expressed the view that the Conceptual Framework should identify:

- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They noted that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB.

BC3.28 In developing the qualitative characteristics, the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB was of the view that such an approach should not be adopted because, for example:

- Matters identified as "fundamental" might be perceived to be more important than those identified as "enhancing", even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- All the qualitative characteristics are important and work together to contribute to the usefulness of information. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision-making purposes could be considered as relevant information—therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and

- GPFRs of public sector entities may encompass historical and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto—for such trend data, reporting on a comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

BC3.29 At the time of issue of the 2010 Exposure Draft, Appendix A of IPSAS 1 described materiality with similar characteristics to that described in the Conceptual Framework, but identified materiality as a factor to be considered in determining only the relevance of information. Some respondents to the Exposure Draft noted that materiality may be identified as an aspect of relevance.

BC3.30 The IPSASB has considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFRs. As explained in the Conceptual Framework, and subject to requirements in an IPSAS, materiality will be considered by preparers in determining whether, for example, a particular accounting policy should be adopted or an item of information should be separately disclosed in the financial statements of the entity.

BC3.31 However, the IPSASB took the view that materiality has a more pervasive role than would be reflected by its classification as only an entity-specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. Therefore, the materiality of an item should be considered when determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the faithful representation, understandability or verifiability of financial and non-financial information presented in GPFRs. The IPSASB was also of the view that whether the effects of the application of a particular accounting policy or basis of preparation or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSAS and RPG. Consequently, the IPSASB was of the view that materiality is better reflected as a broad constraint on information to be included in GPFRs.

BC3.32 The IPSASB considered whether the Conceptual Framework should reflect that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSAS. The IPSASB was of the view that, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept. Consequently, the IPSASB has not identified it as such in the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in the Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

BC3.32A In 2018 the IASB amended IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarified the definition of material in order to resolve difficulties that entities experience in making materiality judgments when preparing financial statements, and to align the definitions in both standards. Because of these changes the IASB made minor, but significant, amendments to Chapter 2, *Qualitative Characteristics of Useful Financial Information*, of its 2018 Conceptual Framework. First, an amendment complemented the guidance that information is material if omitting or misstating it could influence decision making with a reference to “obscuring information” as a further factor. A second amendment softened the threshold for entities in determining when information is material.

BC3.32B In its Limited Scope Update project initiated in 2020 the IPSASB considered both changes in the context of public sector general purpose financial reporting. The IPSASB concluded that the reference to "obscuring information" is relevant to the public sector, as it suggests that, amongst other practices, the inclusion of immaterial disclosures can have a negative impact on users, rather than just being unnecessary. This is a relevant consideration for both the financial statements and other GPFRs. The IPSASB also concluded that modifying the wording on adversely influencing users by adding the words "reasonably be expected to influence" imposes a more realistic expectation on preparers' assessments of materiality. The IPSASB therefore decided to adopt these changes in its Conceptual Framework and amended paragraph 3.32 accordingly. In ED 81, the IPSASB proposed the addition of a sentence that "where an entity judges that a material item is not separately displayed on the face of a financial statement (or displayed sufficiently prominently) an entity considers disclosure". The intention was to provide further useful guidance to preparers.

BC3.32C The majority of respondents to ED 81 supported the addition of "obscuring information" as a factor relevant to materiality. They also supported softening the threshold for determining when information is material. Some respondents requested that the Conceptual Framework include examples of how material information is obscured. The IPSASB considers that the role of the Conceptual Framework is to provide high-level principles rather than to include detailed examples; such examples risk diverting attention from the core principle and are better provided elsewhere in the IPSASB's literature.

BC3.32D A number of respondents expressed reservations about the additional sentence in paragraph 3.32. These reservations highlighted two points. First, some respondents felt that the sentence risked undermining the principle in paragraph 6.9 of Chapter 6, *Recognition in Financial Statements*, that "the failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail". Second, some respondents felt that the sentence related to presentation and was therefore inappropriate for Chapter 3.

BC3.32E The IPSASB's intention was not to undermine the key principle that disclosure is not an alternative to recognition of an item that meets the definition of an element and the recognition criteria. However, the IPSASB accepted that the sentence risked such an interpretation. The IPSASB also accepted that issues of display and disclosure are addressed in Chapter 8, *Presentation in General Purpose Financial Reports*, and are inappropriate for Chapter 3. The IPSASB therefore decided not to include this additional sentence in the updated Chapter 3.

BC3.32F In the IASB's 2018 Conceptual Framework, materiality is an aspect of the qualitative characteristic of relevance, rather than a constraint on information in general purpose financial reports as in the IPSASB Conceptual Framework. In the Limited Scope Update the IPSASB did not reassess this classification. The IPSASB acknowledged that materiality can impact a number of qualitative characteristics.

BC3.32G In the Limited Scope Update the IPSASB acknowledged that in a number of jurisdictions, public sector entities are required to report on whether transactions have been recorded in accordance with governing legislation and regulations. In some jurisdictions such reports are referred to as a regularity assertion or statement. Auditors may be required to express an opinion on such statements, separate from that on the financial statements.

BC3.32H The IPSASB considered whether the Conceptual Framework should provide guidance on materiality considerations for regularity assertions/statements. Consistent with the reasoning in paragraph BC3.32, the IPSASB concluded that additional guidance is not justified.

Cost-Benefit

BC3.33 Some respondents to the 2010 Exposure Draft expressed concern that the text of the proposed Conceptual Framework does not specify that entities cannot decide to depart from IPSAS on the basis of their own assessments of the costs and benefits of particular requirements of an IPSAS. The IPSASB is of the view that such specification is not necessary. This is because, as noted in paragraph 1.2 of Chapter 1, Role and Authority of the Conceptual Framework, authoritative requirements relating to recognition, measurement, and presentation in GPFRs are specified in IPSAS. GPFRs are developed to provide information useful to users and requirements are prescribed by IPSAS only when the benefits to users of compliance with those requirements are assessed by the IPSASB to justify their costs. However, preparers may consider costs and benefits in, for example, determining whether to include in GPFRs disclosure of information in addition to that required by IPSAS.

BC3.34 Some respondents to the 2010 Exposure Draft also expressed concern that the proposed Conceptual Framework did not recognize that cost-benefit trade-offs may differ for different public sector entities. They were of the view that acknowledgement of this might provide a useful principle to be applied when considering differential reporting issues. The IPSASB considered these matters and determined that the Conceptual Framework should not deal with issues related to differential reporting, including whether the costs and benefits of particular requirements might differ for different entities.

BC3.35 In the process of developing an IPSAS or RPG, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFRs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from, for example, the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

CHAPTER 4: REPORTING ENTITY

CONTENTS

Introduction

4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFRs.

4.2 A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity—such a reporting entity is referred to as a group reporting entity.

Key Characteristics of a Reporting Entity

4.3 Key characteristics of a public sector reporting entity are that:

- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
- There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.

4.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.

4.5 GPFRs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and resource providers are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFRs of that entity or group of entities for information for accountability or decision-making purposes.

4.6 GPFRs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise resources and/or use resources previously raised to undertake activities for the benefit of, or on behalf of, its constituents.

4.7 The factors that are likely to signal the existence of users of GPFRs of a public sector entity or group of entities include an entity having the responsibility or capacity to raise or deploy resources, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who are dependent on GPFRs for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist.

4.8 The preparation of GPFRs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those public sector entities for which such users exist are required to prepare GPFRs.

4.9 In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFRs of a public sector entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFRs of a government at the national, state or local government level and for international public sector organizations. This is because these governments and organizations generally have the capacity to raise substantial resources from and/or deploy substantial resources on behalf of their constituents, to incur liabilities, and to impact the economic and/or social well-being of the communities that depend on them for the provision of services.

4.10 However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFRs of, for example, individual government departments and agencies, particular programs or identifiable areas of activity for information for accountability and decision-making purposes. Determining whether these organizations, programs or activities should be identified as reporting entities and, consequently, be required to prepare GPFRs will involve the exercise of professional judgment.

4.11 The government and some other public sector entities have a separate identity or standing in law (a legal identity). However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy resources, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFRs of these organizations, programs and activities for information for accountability and decision-making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement or program without a separate legal identity.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Key Characteristics of a Reporting Entity

BC4.1 The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes.

BC4.2 Reporting entities prepare GPFRs. GPFRs include financial statements, which present information about such matters as the financial position, performance and cash flows of the entity, and financial and non-financial information that enhances, complements and supplements the financial statements. Therefore, a key characteristic of a public sector reporting entity is the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes.

Legislation, Regulation or Other Authority

BC4.3 The Exposure Draft did not specify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFRs. It noted that the public sector organizations and programs that are to prepare GPFRs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.

BC4.4 Some respondents expressed the view that while legislation or other authority may, in practice, specify which entities are to prepare GPFRs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of that concept and provide guidance on the principles and factors that should be considered in determining whether a reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity.

Interpretation and Application

BC4.5 Some respondents expressed concern that the characteristics of a reporting entity as explained in the Exposure Draft may be interpreted to identify particular activities or segments of an organization as separate reporting entities. These segments or activities would then be required to prepare GPFRs in accordance with all IPSAS. Some respondents also noted that it was not clear how the guidance in the Exposure Draft applied to public sector organizations other than governments including, for example, international public sector organizations.

BC4.6 The IPSASB has responded to these concerns. The Framework explains that preparation of GPFRs is not a cost-free process. It also:

- Includes additional guidance on the factors that are likely to signal the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes; and
- Notes the likely implications of these factors for the identification of a range of public sector organizations, programs and activities as reporting entities, including government departments and agencies and international public sector organizations.

BC4.7 The Conceptual Framework acknowledges that in some cases it may be necessary to exercise professional judgment in determining whether particular public sector entities should be identified as a reporting entity. In exercising that judgement, it should be noted that, in certain circumstances, IPSAS respond to users' needs for information about particular programs or activities undertaken by a government or other public sector reporting entity by providing for separate disclosures within the GPFRs of that government or other public sector reporting entity[5]. Jurisdictional factors such as the legislative and regulatory framework in place and institutional and administrative arrangements for the raising of resources and the delivery of services are also likely to inform deliberations on whether it is likely that service recipients and resource providers dependent on GPFRs of particular public sector entities exist.

The Group Reporting Entity

BC4.8 The Exposure Draft outlined the circumstances that would justify the inclusion of an entity or activity within a public sector group reporting entity. It explained that:

- A government or other public sector entity may (a) have the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities, and (b) be exposed to a financial burden or loss that may arise as a result of the activities of those entities; and
- To satisfy the objectives of financial reporting, GPFRs of a group reporting entity prepared in respect of a government or other public sector entity should include that government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can (a) generate financial or other benefits for the government (or other public sector entity), or (b) expose it to a financial burden or loss.

BC4.9 Many respondents to the Exposure Draft noted their agreement with the IPSASB's view of the criteria that should be satisfied for inclusion in a public sector group reporting entity. However, other respondents expressed their concern about the potential interpretation and application of the criteria in particular circumstances. In some cases, they noted that the Framework would need to provide additional application guidance if it was to be effective in dealing with circumstances not dealt with in IPSAS. A number of respondents also expressed the view that the criteria to be satisfied for inclusion in a group reporting entity were more appropriately addressed and resolved at the standards level, where those criteria and their consequences could be tested across a range of circumstances, and supported with specific examples of the circumstances likely to exist in many jurisdictions.

BC4.10 The IPSASB found these concerns persuasive. It has reconstructed and drawn together its discussion of the reporting entity and group reporting entity to focus on the principles underlying the identification of a public sector reporting entity—whether that reporting entity comprises a single public sector entity or a group of entities. The identification of the criteria to be satisfied for inclusion in a group reporting entity consistent with these principles will then be developed and fully explored at the standards level.

[5] For example, International Public Sector Accounting Standards (IPSAS) such as IPSAS 18, *Segment Reporting* and IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities.

CHAPTER 5: ELEMENTS IN FINANCIAL STATEMENTS

CONTENTS

Introduction

Purpose of this Chapter

5.1 This Chapter defines the elements used in financial statements and provides further explanation about those definitions.

Elements and their Importance

5.2 Financial statements portray the financial effects of transactions and other events by grouping them into broad classes which share common economic characteristics. These broad classes are termed the elements of financial statements. Elements are the building blocks from which financial statements are constructed. These building blocks provide an initial point for recording, classifying and aggregating economic data and activity in a way that provides users with information that meets the objectives of financial reporting and achieves the qualitative characteristics of financial reporting while taking into account the constraints on information included in GPFRs.

5.3 The elements defined in this Chapter do not refer to the individual items that are recognized as a result of transactions and events. Sub-classifications of individual items within an element and aggregations of items are used to enhance the understandability of the financial statements. Presentation is addressed in Chapter 8, *Presentation in General Purpose Financial Reports*.

5.4 In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude IPSAS from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter (hereafter referred to as “other resources” or “other obligations”) when necessary to better achieve the objectives of financial reporting.

Elements Defined

5.5 The elements that are defined in this Chapter are:

- Assets;
- Liabilities;
- Revenue;
- Expense;
- Ownership contributions; and
- Ownership distributions.

Assets

Definitions of an Asset and a Resource

5.6 An asset is:

A resource presently controlled by the entity as a result of past events.

5.6A A resource is:

A right to either service potential or the capability to generate economic benefits, or a right to both.

5.6B This section discusses three components of these definitions:

Rights (paragraphs 5.7A–5.7G);

Service potential and economic benefits (paragraphs 5.8–5.10); and

Present control as a result of past events (paragraph 5.11–5.13).

5.7 [Deleted]

Rights

5.7A Rights to service potential or to the capability to generate economic benefits take many forms, including:

(a) Rights that correspond to an obligation of another party (see paragraph 5.16C), for example:

(i) Rights to receive cash;

(ii) Rights to receive goods or services[6];

(iii) Rights to exchange resources with another party on favorable terms. Such rights include, for example, a forward contract to buy a resource on terms that are currently favorable; and

(iv) Rights to benefit from an obligation of another party to transfer a resource if a specified uncertain future event occurs (see paragraph 5.16A).

(b) Rights that do not correspond to an obligation of another party, for example:

(i) Rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from a leased object; and

(ii) Rights to use intellectual property.

5.7B Many rights are established by binding arrangement, legislation, or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument such as a student loan, or from owning software or the right to use intellectual property. However, an entity might also obtain rights in other ways, for example:

(a) By acquiring or creating know-how that is not in the public domain, such as a traffic management plan; or

(b) Through an obligation of another party that arises because that other party has little or no realistic alternative to avoid a transfer of resources (see paragraph 5.15).

5.7C Some services—for example, employee services and services-in-kind—are received and immediately consumed. An entity's right to obtain the service potential or economic benefits produced by such services exists very briefly until the entity consumes the services.

5.7D Not all of an entity's rights are assets of that entity. To be assets of the entity, the rights must (i) have service potential or economic benefits beyond those available to all other parties (see paragraphs 5.8–5.10) and (ii) be controlled by the entity (see paragraphs 5.11–5.12A). Rights available to all parties without significant cost—for instance, rights of access to public goods, such as public rights of way over land, or know-how that is in the public domain—are typically not assets for the entities that hold these rights.

6 Subsequent references to 'services' in the Conceptual Framework encompass 'goods' unless the context indicates otherwise.

5.7E In principle, each of an entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single unit of account that is a single asset (see paragraphs 5.26A–5.26J). For example, legal ownership of a physical object may give rise to several rights, including a right to:

(a) Use the object;

(b) Sell rights over the object; and

(c) Pledge rights over the object.

5.7F In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. Conceptually, the resource is the set of rights, not the physical object. Nevertheless, describing the set of rights as the physical object will often provide a faithful representation of those rights in the most concise and understandable way.

5.7G The relationship between sovereign rights, resources and an asset is discussed in paragraph 5.13.

Service Potential and Economic Benefits

5.8 Service potential is the capability of a resource to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

5.9 Public sector assets that embody service potential may include recreational, heritage, community, defense and other assets that are held by governments and other public sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas in which market competition is limited or non-existent. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.

5.10 Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:

- An asset's use in the production and sale of services; or
- The direct exchange of an asset for cash; or
- Extinguishing or reducing a liability by transferring an asset.

Presently Controlled by the Entity as a Result of Past Events

5.11 An entity must have control of the resource. Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.

5.12 In assessing whether it presently controls a resource, an entity assesses whether the following indicators of control exist:

- Legal ownership;
- Access to the resource, or the ability to deny or restrict access to the resource;
- The means to ensure that the resource is used to achieve its objectives; and
- The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.

5.12A Sometimes one party (a principal) engages another party (an agent) to act on behalf of, and for the benefit of, the principal. For example, a principal may engage an agent to arrange for the distribution of goods controlled by the principal to eligible beneficiaries. If an agent has custody of a resource controlled by the principal, that resource is not an asset of the agent.

5.13 The definition of an asset requires that a resource that an entity presently controls must have arisen from one or more past transactions or other past events. The past transactions or other events that result in an entity gaining control of a resource and therefore an asset may differ. Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources, like the electromagnetic spectrum, are examples of public sector-specific powers and rights that may give rise to assets. In assessing when an entity's control of rights to resources arise the following events may be considered: (a) a general ability to establish a power, (b) establishment of a power through a statute, (c) exercising the power to create a right, and (d) the event which gives rise to the right to receive resources from an external party. An asset arises when the power is exercised and the rights exist to receive resources.

Liabilities

Definition

5.14 A liability is:

A present obligation of the entity to transfer resources as a result of past events.

5.14A For a liability to exist, three criteria must all be satisfied:

(a) The entity has an obligation (paragraphs 5.15–5.15F);

(b) The obligation is to transfer resources (paragraphs 5.16A–5.16F); and

(c) The obligation is a present obligation arising from one or more past events (paragraphs 5.17–5.17D).

Obligations

5.15 Public sector entities can have a number of obligations. Obligations are binding when an entity has little or no realistic alternative to avoid them.

5.15A Binding obligations can be legal obligations or non-legally binding obligations. Binding obligations can arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of an external party is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for an obligation and a liability to exist.

5.15B Many arrangements that give rise to an obligation include settlement dates. The inclusion of a settlement date may provide an indication that an obligation involves a transfer of resources and gives rise to a liability. However, there are many agreements that do not contain settlement dates. The absence of a settlement date does not preclude an obligation giving rise to a liability.

Legal Obligations

5.15C A legal obligation is enforceable in law. Such enforceable obligations may arise from a variety of legal constructs. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. There are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect. Obligations that are binding through such alternative processes are considered legal obligations in the Conceptual Framework. For some types of non-exchange transactions, judgment will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has little or no realistic alternative to avoid the obligation and that a liability exists.

5.15D Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.

5.15E Sovereign power is the ultimate authority of a government to make, amend and repeal legal provisions. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Conceptual Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.

Non-Legally Binding Obligations

5.15F Liabilities can arise from non-legally binding obligations. Non-legally binding obligations differ from legal obligations in that the party to whom the obligation exists cannot take legal (or equivalent) action to enforce settlement. Non-legally binding obligations that give rise to liabilities have the following attributes:

- The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

A Transfer of Resources from the Entity

5.16 [Deleted]

5.16A To satisfy the definition of a liability the obligation must have the potential to require the entity to transfer resources to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer resources—the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the present obligation exists, and that, at least in one circumstance, it would require the entity to transfer resources.

5.16B An obligation can meet the definition of a liability even if the probability of a transfer of resources is low. Nevertheless, that low probability might affect decisions about the information provided about the liability and how the information is provided. Chapter 6 provides guidance on recognition and Chapter 7 provides guidance on measurement.

5.16C Obligations to transfer resources include, for example:

(a) Obligations to pay cash;

(b) Obligations to provide services or deliver goods;

(c) Obligations to exchange resources with another party on unfavorable terms. Such obligations include, for example, a forward contract to sell on terms that are currently unfavorable or an option that entitles another party to purchase resources from the entity;

(d) Obligations to transfer resources if a specified uncertain future event occurs; and

(e) Obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer a resource.

5.16D Instead of fulfilling an obligation to transfer resources to the party that has a right to receive resources, entities may in some circumstances:

(a) Settle the obligation by negotiating a release from the obligation;

(b) Transfer the obligation to a third party; or

(c) Replace the obligation to transfer resources with another obligation by entering into a new transaction.

5.16E In the situations identified in paragraph 5.16D an entity has an obligation to transfer resources until it has settled, transferred, or replaced that obligation.

5.16F In a principal-agent relationship (see paragraph 5.12A), if the agent has an obligation to transfer resources controlled by the principal to a third party, that obligation is not a liability of the agent. In such a case the resources that would be transferred are the principal's resources.

Present Obligation as a Result of Past Events

5.17 A present obligation is binding. To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of one or more past transactions or other past events and has the potential to require the entity to transfer resources from the entity.

5.17A A present obligation exists as a result of past events only if:

(a) The entity has already obtained service potential or economic benefits or taken an action[7]; and

(b) As a consequence, the entity will or may have to transfer resources that it would not otherwise have had to transfer.

5.17B In the public sector, obligations may arise at a number of points. For example, in implementing a program or service:

- Making a political promise such as an electoral pledge;
- Announcement of a policy;
- Introduction (and approval) of the budget (which may be two distinct points); and
- The budget becoming effective (in some jurisdictions the budget will not be effective until an appropriation has been effected).

The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability. As noted in paragraph 5.15A an entity cannot be obligated to itself as a result of a public communication.

5.17C The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgments whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid a transfer of resources include:

- The nature of the past event or events that give rise to the obligation. For example, a promise made in an election is unlikely to give rise to a present obligation because an electoral pledge very rarely

[7] In the public sector a present obligation can arise from an obligation imposed by a higher level of government

creates a valid expectation on the part of external parties that the entity has an obligation that it has little or no realistic alternative to avoid settling. However, an announcement in relation to an event or circumstance that has occurred may have such political support that the government has little option to withdraw. Where the government has committed to introduce and secure passage of the necessary budgetary provision such an announcement may give rise to a non-legally binding obligation;

- The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, which cannot be modified before being implemented; and
- There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However, the absence of a budgetary provision does not itself mean that a present obligation has not arisen.

5.17D "Economic coercion", "political necessity" or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.

5.18 [Deleted]

5.19 [Deleted]

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5.22 [Deleted]

5.23 [Deleted]

5.24 [Deleted]

5.25 [Deleted]

5.26 [Deleted]

Assets and Liabilities

Unit of Account

5.26A The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations to which recognition criteria and measurement concepts are applied.

5.26B A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related revenue and expense. In some circumstances it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, arrangements may sometimes be recognized individually but measured as part of a portfolio of binding arrangements. For presentation and disclosure, assets, liabilities, revenue and expense may need to be aggregated or separated into components.

5.26C If an entity transfers part of an asset or part of a liability, the unit of account may change at that time, so that the transferred component and the retained component become separate units of account.

5.26D A unit of account is selected to provide useful information, which implies that:

(a) The information provided about the asset or liability and about any related revenue and expense must be relevant. Treating a group of rights and obligations as a single unit of account may provide more relevant information than treating each right or obligation as a separate unit of account if, for example, those rights and obligations:

(i) Cannot be or are unlikely to be the subject of separate transactions;

(ii) Cannot or are unlikely to expire in different patterns;

(iii) Have similar characteristics and risks; or

(iv) Are used together in the operational activities conducted by an entity to provide services or to produce cash flows and are measured by reference to estimates of their interdependent service potential or future cash flows.

(b) Information provided about the asset or liability and about any related revenue or expense must faithfully represent the substance of a transaction or other event from which they have arisen. Therefore, it may be necessary to treat rights or obligations arising from different sources as a single unit of account, or to separate the rights or obligations arising from a single source. Equally, to provide a faithful representation of unrelated rights or obligations, it may be necessary to recognize and measure them separately.

5.26E In selecting a unit of account it is also important to consider the cost-benefit constraint of financial reporting discussed in Chapter 3. In general, the costs associated with recognizing and measuring assets, liabilities, revenue and expense increase as the size of unit of account decreases. Hence, in general, rights or obligations arising from the same source are separated only if the resulting information is more useful and the benefits outweigh the costs.

5.26F One example of rights and obligations arising from the same source are binding arrangements, which establish both rights and obligations for each of the parties. If those rights and obligations are interdependent and cannot be separated, they constitute a single inseparable asset or liability and hence form a single unit of account.

5.26G Conversely, if rights are separable from obligations arising from the same source, it may sometimes be appropriate to group the rights separately from the obligations, resulting in the identification of one or more separate assets and liabilities. In other cases, it may be more appropriate to group separable rights and obligations in a single unit of account, treating them as a single asset or a single liability.

5.26H Treating a set of rights and present obligations as a single unit of account differs from offsetting assets and liabilities. Offsetting occurs when an entity recognizes and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

Binding Arrangements that are Equally Unperformed

5.26I Some binding arrangements, or portions of binding arrangements, may be equally unperformed whereby neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent. Such binding arrangements establish a combined right and obligation to exchange resources. The right and obligation are interdependent and cannot be separated. Hence the combined right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favorable; it has a liability if the terms of the exchange are currently unfavorable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria (see Chapter 6) and the measurement basis selected for the asset and liability (see Chapter 7).

5.26J To the extent that either party fulfills its obligations under the binding arrangement, the binding arrangement changes character. If the reporting entity performs first under the binding arrangement, that performance is the event that changes the reporting entity's right and obligation to exchange resources into a right to receive a resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting entity's right and obligation to exchange resources into an obligation to transfer a resource. That obligation is a liability.

Net Financial Position, Other Resources, and Other Obligations

5.27 As explained in paragraph 5.4, in some cases, in developing or revising an IPSAS, the IPSASB may determine that to achieve the objectives of financial reporting a resource or obligation that does not satisfy the definition of an element defined in the Conceptual Framework needs to be recognized in the financial statements. In these cases, the IPSAS may require or allow these resources or obligations to be recognized as other resources or other obligations, which are items additional to the six elements defined in this Conceptual Framework.

5.28 Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position. Net financial position can be a positive or negative residual amount.

Revenue and Expense

Definitions

5.29 Revenue is:

Increases in the net financial position of the entity, other than increases arising from ownership contributions.

5.30 Expense is:

Decreases in the net financial position of the entity, other than decreases arising from ownership distributions.

5.31 Revenue and expense arise from exchange and non-exchange transactions, other events such as unrealized increases and decreases in the value of assets and liabilities, and the consumption of assets through depreciation and erosion of service potential and capability to generate economic benefits through impairments. Revenue and expense may arise from individual transactions or groups of transactions.

Surplus or Deficit for the Period

5.32 The entity's surplus or deficit for the period is the difference between revenue and expense reported on the statement of financial performance.

Ownership Contributions and Ownership Distributions

Definitions

5.33 Ownership contributions are:

Inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.

5.34 Ownership distributions are:

Outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.

5.35 It is important to distinguish inflows of resources from owners, including those inflows that initially establish the ownership interest, and outflows of resources to owners in their capacity as owners from revenue and expense. In addition to the injections of resources and the payment of dividends that may occur, in some jurisdictions it is relatively common for assets and liabilities to be transferred between public sector entities. Where such transfers satisfy the definitions of ownership contributions or ownership distributions they will be accounted for as such.

5.36 Ownership interests may arise on the creation of an entity when another entity contributes resources to provide the new entity with the capacity to commence operational activities. In the public sector, contributions to, and distributions from, entities are sometimes linked to the restructuring of government and will take the form of transfers of assets and liabilities rather than cash transactions. Ownership interests may take different forms, which may not be evidenced by an equity instrument.

5.37 Ownership contributions may take the form of an initial injection of resources at the creation of an entity or a subsequent injection of resources, including those where an entity is restructured. Ownership distributions may be: (a) a return on investment; (b) a full or partial return of investment; or (c) in the event of the entity being wound up or restructured, a return of any residual resources.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Scope of Chapter

BC5.1 Respondents to the 2010 Consultation Paper, Elements and *Recognition in Financial Statements* (the 2010 Consultation Paper), questioned why the IPSASB was only addressing elements for the financial statements in this phase of the Conceptual Framework. They suggested that IPSASB should also develop elements for economic and other phenomena in the more comprehensive areas of financial reporting outside the financial statements. The IPSASB acknowledges the merits of these views and the need to develop such elements in the future. However, the IPSASB decided that in order to put its future standard-setting activities for the financial statements on a sound and transparent footing it is important to deal firstly with the development of elements for the financial statements.

BC5.2 The IPSASB acknowledges a view that cash inflows and cash outflows should be defined as elements of the cash flow statement. The IPSASB took the view that cash inflows and cash outflows are components of the elements identified in this Chapter, and that further guidance should be provided at standards level.

Limited Scope Update of Conceptual Framework

BC5.2A In March 2020 the IPSASB initiated a Limited Scope Update of the Conceptual Framework. The Limited Scope Update compared the definitions of an asset and a liability with the definitions in the IASB's Conceptual Framework, which was finalized in 2018 (2018 IASB Conceptual Framework). The guidance supporting the definitions was also reviewed to take account of experience in applying the Conceptual Framework in standards development and maintenance.

BC5.2B The Limited Scope Update also evaluated the case for including guidance on the unit of account and binding arrangements that are equally unperformed. The 2014 Conceptual Framework did not address these issues. The IPSASB approved an updated Chapter 5 in March 2023. The IPSASB started using updated Chapter 5 immediately once approved.

Assets

The Definition of an Asset

BC5.2C The definition of an asset in the 2014 Conceptual Framework was:

A resource presently controlled by the entity as a result of a past event.

BC5.2D The definition of an asset in the IASB's 2018 Conceptual Framework is:

A present economic resource controlled by the entity as a result of past events.

BC5.2E Neither the IPSASB nor the IASB definitions included wording that could be interpreted as recognition thresholds, such as "expected to flow".

BC5.2F The 2014 IPSASB and 2018 IASB definitions contain the same components—a resource/an economic resource; control; and a past event/past events. The only differences were:

(a) The IASB uses the term "economic resource", whereas the IPSASB uses the term 'resource'.

(b) The IASB attaches "present" to "economic resource", whereas the IPSASB Conceptual Framework attaches "presently" to control. The IASB's use of "present economic resource" mirrors a present obligation for a liability.

(c) The IASB uses "past events" (plural). The IPSASB used "past event" (singular). The IPSASB formulation was intended to indicate that there need be only one past event in order for the definition of an asset to be met.

BC5.2G The IPSASB considered the rationale for using the terms "resource" and "presently controlled". The IPSASB considers that a resource is inherently economic and that the use of "economic resource" might be confused with "economic benefits", because of the guidance that rights with service potential are resources as well as those with the capability to generate economic benefits. The term "presently controlled" reinforces the key point that control of a resource must be evaluated at the reporting date, rather than in the future. The prospect of control in the future is not sufficient to meet the asset definition. The IPSASB therefore reaffirmed the use and location of these terms.

BC5.2H The IPSASB considered that the use of the plural "past events" rather than the singular "past event" better conveys the point that resources can accumulate over time due to an initial past event and further past events. An example is a binding arrangement for the delivery of services to third party beneficiaries in which one party receives resources from another party in order to finance the arrangement. The resource recipient accumulates assets as it incurs eligible expenditure or completes specified activities in accordance with the binding arrangement. The term "past events" includes the scenario where a single past event gives rise to an asset.

BC5.2I The revised definition of an asset is therefore:

A resource presently controlled by the entity as a result of past events.

BC5.2J In the Limited Scope Update the IPSASB reviewed the sequencing of guidance and restructured the guidance so that it reflected the components of the definition of an asset more clearly.

A Resource

BC5.3 The 2014 Conceptual Framework provided guidance that a resource provides benefits to an entity in the form of service potential or the ability to generate economic benefits or both. In reaching its conclusions on the nature of a resource the IPSASB considered whether the benefits of the resource must have already flowed to an entity in order for a resource to exist. However, the IPSASB concluded that resources themselves embody benefits—benefits that can be accessed by the entity that controls the rights to these benefits. The IPSASB also considered the nature of the benefits (see paragraphs BC5.7 and BC5.8) and control (see paragraphs BC5.9–BC5.14).

BC5.3A The 2014 Conceptual Framework made a distinction between (i) service potential and the ability[8] to generate economic benefits that can arise directly from legal ownership of the resource and (ii) service potential and the capability to generate economic benefits that arise from other rights to use the resource.

BC5.3B The 2018 IASB Conceptual Framework considered but decided not to make the distinction outlined in paragraph BC5.3A. The IASB took the view that "ownership of a physical object arises because of rights conferred by law and that, although they differ in extent, the rights conferred by full legal ownership of a physical object and by a contract to use an object for 99% (or 50% or even 1%) of its useful life are all rights of one kind or another". The IASB also considered that there may be inconsistencies of what constitutes legal ownership in different jurisdictions or at different dates. In summary, the IASB guidance reflects a view that legal ownership is a particular form of right rather than a separate phenomenon.

BC5.3C The IPSASB acknowledged the view that physical ownership gives rise to a specific type of control and that this should be reflected conceptually. According to this view, from an accountability perspective, a conceptual

8 In the updated Conceptual Framework, the IPSASB uses the phrase 'capability to generate economic benefits', rather than 'ability to generate economic benefits'.

approach, which might lead to underlying assets not being recognized as a single unit of account, risks not meeting the qualitative characteristic of understandability.

BC5.3D However, on balance, the IPSASB decided to adopt a more overtly rights-based approach. In particular, the IPSASB concluded that the view that legal ownership is a type of right rather than a separate phenomenon was persuasive.

BC5.3E The 2018 IASB Conceptual Framework acknowledged that in many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. The IPSASB inserted paragraph 5.7F providing guidance that describing the set of rights as the physical item will often provide a faithful representation of those rights in the most concise and understandable way.

BC5.3F The IPSASB considered whether it should augment the guidance on a resource with guidance drawn from the 2018 IASB Conceptual Framework. The IPSASB decided that the following guidance should be added on issues on which the 2014 Conceptual Framework had previously been silent:

- Rights can be classified as those that correspond to an obligation of another party and those that do not correspond to an obligation of another party (paragraph 5.7A).
- Ways in which rights can be established (paragraph 5.7B).
- When services are received and immediately consumed, an entity’s right to obtain the service potential or/and economic benefits produced by such services exists very briefly until the entity consumes the services. This is consistent with the approach to services in- kind at the standards level where certain services in-kind are received as an asset and immediately consumed (paragraph 5.7C).
- Not all rights are assets of an entity (paragraph 5.7D).
- In principle each of an entity’s rights is a separate asset (paragraph 5.7E).
- In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset (paragraph 5.7F; also noted above in paragraph BC5.3E).

BC5.3G Some respondents to Exposure Draft 81 opposed the more overtly rights-based approach. In particular, they disagreed with the potential non-recognition of physical assets in their entirety in the financial statements. They considered that this undermines accountability.

BC5.3H The IPSASB acknowledged this point. Paragraphs 5.7E and 5.7F state related rights are often treated as a single unit of account that is a single asset and that, in many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. There may be cases where different entities have different rights over an asset. In the IPSASB’s view the economics of such arrangements should be reflected in the accounting.

Unconditional Rights

BC5.4 Unconditional rights to resources typically result from binding arrangements that require provision of resources to the entity in the future. The IPSASB notes that there can be a large number of such rights and acknowledged that unconditional rights that represent service potential or the capability to generate economic benefits that are controlled by the entity as a result of a past event give rise to assets. Whether such assets are recognized depends on whether the recognition criteria have been satisfied. The IPSASB concluded that the consequences of application of the definition of an asset to unconditional rights should be addressed at standards level.

BC5.5 [Deleted]

BC5.6 [Deleted]

Service Potential and Economic Benefits

BC5.7 The term "service potential" has been used to identify the capability of an asset to provide services in accordance with an entity's objectives. The term "economic benefits" has been used to reflect the capability of an asset to generate net cash inflows. Some argue that economic benefits includes service potential. Others argue that service potential includes economic benefits—a further view is that the terms can be used interchangeably. The IPSASB considered whether the explanation of a resource should include a reference to both service potential and the capability to generate economic benefits.

BC5.8 The IPSASB noted that many respondents to the 2010 Consultation Paper and 2012 Exposure Draft, *Elements and Recognition in Financial Statements* supported inclusion of a specific reference to service potential as a characteristic of an asset, because of the service delivery objectives of most public sector entities. The IPSASB therefore concluded that the explanation of a resource should include both the terms "service potential" and "economic benefits". This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows.

BC5.8A In the Limited Scope Update the IPSASB reaffirmed the term "service potential" as an attribute of a resource. In the description of service potential in paragraph 5.8, the IPSASB changed the wording "the capacity to provide services" to "the capability to provide services", because of the ambiguity of "capacity". Capacity has the same meaning of ability, but in other usages can mean the adequacy, availability and volume of resources. The IPSASB acknowledged that in many languages "capacity" and "capability" will translate similarly. In addition, the IPSASB made a modification to the wording of economic benefits in the description of a resource in paragraph 5.8 and acknowledged that an item can have both service potential and the capability to generate economic benefits. Guidance on the treatment of such assets is provided at the standards level.

Control

BC5.9 The IPSASB considered whether control is an essential characteristic of an asset or whether other indicators should be identified as essential characteristics of an asset including:

- Legal ownership;
- The right to access, and to restrict or deny the access of external parties to, the resource;
- The means to ensure that the resources are used to achieve the entity's objectives; and
- The existence of enforceable rights to service potential or economic benefits arising from a resource.

The IPSASB acknowledges the views of those who argue that control may be difficult to apply in some cases because it requires judgment to assess whether control exists. In addition, control can be erroneously applied to a resource in its entirety and not to the individual benefits that accrue from the resource. However, notwithstanding such difficulties, the IPSASB concluded that control is an essential characteristic of an asset because the presence of control facilitates the association of an asset with a specific entity.

BC5.10 Legal ownership of a resource, such as a property or item of equipment, is one method of accessing the service potential or economic benefits of an asset. However, rights to service potential or the capability to generate economic benefits may exist without legal ownership of the underlying resource. For example, the rights to service potential or the capability to generate economic benefits through the holding and use of leased property are accessed without legal ownership of the leased asset itself. Therefore, legal ownership of the resource is not an essential characteristic of an asset. Legal ownership is, however, an indicator of control.

BC5.11 The right to access a resource may give an entity the ability to determine whether to:

- Directly use the resource's service potential to provide services to beneficiaries;
- Exchange the resource for another asset, such as cash; or
- Use the asset in any of the other ways that may provide services or generate economic benefits.

BC5.12 While access to a resource is crucial, there are resources to which an entity has access which do not give rise to assets, such as air. Therefore, the ability to access a resource must be supplemented by the ability to deny or restrict the access of others to that resource—for example, (a) an entity might decide whether to set an entrance fee to a museum and restrict access to those who do not pay the fee, and (b) government may control a natural resource under its land to which it can restrict the access of others. Legally enforceable claims to specific resources, such as a right of access to a road or a right to explore land for mineral deposits, could represent an asset to the holder. However, an entity may be able to access the service potential or capability to generate economic benefits associated with a resource in ways that do not require legal rights. The IPSASB took the view that the factors identified in paragraph BC5.9 are likely to be indicators of the existence of control rather than essential characteristics of the definition of an asset.

BC5.13 The IPSASB also considered whether the economic ownership approach is a viable alternative to the control approach. The economic ownership approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity. Some respondents to the 2012 Exposure Draft, in supporting the control approach, commented on the complexity of the economic ownership approach. The IPSASB concluded that the economic ownership approach is subjective and difficult to operate, and therefore rejected this approach.

BC5.14 The IPSASB considered whether an analysis of exposure to the risks and rewards of ownership is a useful indicator of control. The control approach focuses on the power of the entity to direct how the resource is used in order to benefit from the service potential and/or capability to generate economic benefits embodied in the resource. The risks and rewards approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity and the related risks. Consideration of the risks and rewards associated with particular transactions and events, and which party to any transaction or event bears the majority of those risks and rewards, may be relevant and useful in identifying the nature of the asset controlled by parties to the transaction or event. It may also be useful in determining how to quantify and associate the economic rights and obligations with particular parties. However, it is not of itself an indicator of the party that controls an asset. The IPSASB therefore decided not to include the risks and rewards of ownership as an indicator of control.

BC5.14A In the Limited Scope Update the IPSASB noted that the 2018 IASB Conceptual Framework included guidance on the principal-agent relationship. The 2014 IPSASB Conceptual Framework did not include guidance that in principal-agent relationships custody of a resource controlled by a principal does not give rise to an asset of the agent. While this is implicit in paragraph 5.11, the IPSASB considered that explicit guidance would be useful to underpin standards-level guidance and has therefore inserted a new paragraph 5.12A. The IPSASB included equivalent guidance for liabilities in paragraph 5.16F.

Past Events

BC5.15 Some respondents to the 2010 Consultation Paper and 2012 Exposure Draft argued that identification of a past transaction or other event which gives rise to the asset should be an essential characteristic of the definition of an asset. Others take the view that the identification of a past event is not necessary and should not therefore be an essential characteristic. They consider that such a requirement places undue emphasis on identifying the past event that gave rise to an asset. Such emphasis may be a distraction and lead to debates about which event is the triggering event instead of the more important issue of whether rights to resources exist at the reporting date. Those who take this view consider that the essential characteristic of an asset should be the existence of a resource. Some may accept that a past event provides useful supporting evidence of the existence of an asset, but not that it should be an essential characteristic.

BC5.16 Many respondents took the view that a past event should be identified as an essential characteristic of the definition of an asset. The IPSASB agrees with these respondents—in particular, that the complex nature of many public sector programs and activities means that there are a number of points at which control of a resource might arise. Therefore, the IPSASB concluded that identification of the appropriate past event is crucial in identifying whether an asset exists.

BC5.17 The powers and rights of government are particularly significant for the identification of assets. The power to tax and issue licenses, and other powers to access or to deny or restrict access to the benefits embodied in intangible resources like the electromagnetic spectrum, are examples of sovereign powers. It is often difficult to determine when such powers give rise to a right that is a resource and asset of the entity.

BC5.18 A government's power to establish a right to levy a tax or fee, for example, often begins a sequence of events that ultimately results in the flow of economic benefits to the government. The IPSASB considered two views of when an asset arises from the powers and rights of government to levy a tax or fee. The first view is that the government has an inherent power to tax at every reporting date and, therefore, that the general ability to levy taxes or fees is an asset. Proponents of this view accept that such an asset is unlikely to be capable of faithfully representative measurement, but argue that this should not deflect from an acknowledgement that government has a perpetual asset. The contrary view is that the power to levy taxes and fees must be converted into a right by legal means, and that such a right must be exercised or exercisable in order for an asset to come into existence. Many respondents to the 2010 Consultation Paper and 2012 Exposure Draft supported this latter view. The IPSASB agrees with these respondents. In particular, the IPSASB concluded that a government's inherent powers do not give rise to assets until these powers are exercised and the rights exist to receive service potential or economic benefits. The updated definition of an asset and supporting guidance does not affect either the discussion of sovereign powers and rights or the key principle that an asset arises when the power is exercised, and the rights exist to receive resources.

Liabilities

BC5.18A The definition of a liability in the 2014 Conceptual Framework was:

A present obligation of the entity for an outflow of resources that results from a past event.

BC5.18B The definition of a liability in the IASB's 2018 Conceptual Framework is:

A present obligation of the entity to transfer an economic resource as a result of past events.

BC5.18C As for the asset definition (see above paragraphs BC5.2A–BC5.2J) both IPSASB and IASB definitions contained the same or similar components—resources/an economic resource; outflow of resources/transfer of resources; and a past event/past events. The differences were:

(a) As in the asset definitions, the IASB uses the term "economic resource", whereas the IPSASB uses the term "resource". The IPSASB's reason for retaining the term "resource" is discussed in paragraph BC5.2G.

(b) The IASB definition replaced the term "outflow of resources" with "transfer of an economic resource". This was largely because of the linkage of the term an outflow of resources with the expectation of such an outflow and therefore potential confusion with a recognition threshold.

(c) As in the asset definition, the IASB uses "past events" (plural). The IPSASB used "past event" (singular). The IPSASB formulation was intended to indicate that there need be only one past event in order for the definition to be met.

BC5.18D The IPSASB was persuaded by the adoption of the term transfer of resources and considered the standards-level implications of the adoption of the term "transfer of resources" in the revised definition of a liability at the standards-level.

BC5.18E The IPSASB noted that the term "transfers" is defined in IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers). A project to replace IPSAS 23 was underway at the time that the Limited Scope Update took place. The IPSASB concluded that any ambiguities or inconsistencies between conceptual and standards levels could be mitigated by adjustments to new defined terms and the provision of guidance on what a transfer of resources involves. Such guidance is in paragraphs 5.16A–5.16E.

BC5.18F Consistent with the analysis for assets at BC5.2H the IPSASB considered that the use of the plural "past events" rather than the singular "past event" better conveys that present obligations that give rise to liabilities can accumulate over time due to an initial past event and further past events.

BC5.18G The revised definition of a liability is:

A present obligation of the entity to transfer resources as a result of past events.

BC5.18H Most respondents to Exposure Draft 81 supported the revised definition. Some respondents expressed unease about the term 'transfer of resources', which they felt had particular public sector connotations. The IPSASB felt that such reservations could be allayed through clear supporting guidance (see below paragraph BC5.19F). The IPSASB therefore decided to adopt this definition in the revised Chapter 5.

BC5.18I Similarly to the guidance on assets, the IPSASB considered the sequencing of guidance on liabilities and restructured the guidance so that it reflected the components of the definition of a liability more clearly. The revised structure also drew on the approach in the IASB's 2018 Conceptual Framework in describing the characteristics of an obligation more clearly and linking a present obligation to a past event. This necessitated a relocation of guidance. The revised guidance is in paragraphs 5.14A–5.17D.

BC5.18J There was strong support for the restructuring of the guidance on liabilities. No new issues arose from the consultation. The IPSASB therefore decided to adopt the restructured guidance in the revised Chapter 5.

A Present Obligation

BC5.19 In considering when obligations are present obligations, the IPSASB accepts that a legal obligation gives rise to a present obligation. In some jurisdictions, public sector entities are not permitted to enter into certain legal arrangements, but there are equivalent mechanisms that give rise to a present obligation. Such mechanisms are considered legally binding. The IPSASB then considered how to classify obligations that are not legal obligations. The IPSASB noted that "constructive obligation" is a term embedded in standard-setting literature globally and has been used in IPSAS. However, it has proved difficult to interpret and apply in a public sector context. Therefore, the IPSASB considered alternative terminology, for example the term "a social or moral duty or requirement." The IPSASB has concerns that the term "social" might be confused with political values and that the term "moral obligations" risks a perception that standard setters and preparers are arbiters of morality. Therefore, the IPSASB decided that making a distinction between "legally binding" and "non-legally binding obligations" is the most straightforward and understandable approach. The IPSASB considered and rejected the view that the term "non-legally binding obligations" might be interpreted as referring to obligations, the legality of which is questionable. Paragraphs BC5.30–BC5.34 discuss non-legally binding obligations and explain their meaning for the purposes of the Conceptual Framework.

A Transfer of Resources

BC5.19A The guidance on "an outflow of resources from the entity" in the 2014 Conceptual Framework was limited to statements that "a liability must involve an outflow of resources from the entity for it to be settled" and that "an obligation that can be settled without an outflow of resources from the entity is not a liability".

BC5.19B In IPSASB's Revenue project some constituents indicated that ED 71, *Revenue without Performance Obligations*, was not clear on what gives rise to a liability in a binding arrangement. It became evident that this lack of clarity was partly attributable to uncertainty over what constitutes an outflow of resources from the entity.

BC5.19C The IPSASB noted that the 2018 IASB Conceptual Framework includes guidance on the application of a transfer of resources. With appropriate changes for public sector terminology, this guidance has been added in paragraphs 5.16A–5.16E of Chapter 5:

(a) Paragraph 5.16A states that the obligation must have the potential to require the entity to transfer a resource to another party or parties. The transfer does not have to be certain or even likely and might be dependent on a specified uncertain future event occurring.

(b) Paragraph 5.16B states that an obligation can meet the definition of a liability even if the probability of a transfer of a resource is low.

(c) Paragraph 5.16C provides examples of obligations to transfer a resource.

(d) Paragraph 5.16D indicates that rather than fulfill an obligation to transfer a resource to another party, entities may sometimes negotiate release from the obligation, transfer the obligation to a third party or replace the obligation with another obligation by entering into a new transaction. This paragraph reflects that in the public sector an entity's ability to extinguish or reduce a present obligation other than by fulfillment may be limited.

(e) Paragraph 5.16E states that in the situations described in paragraph 5.16D an entity has an obligation to transfer a resource until it has negotiated release from the obligation, transferred the obligation, or replaced the obligation.

BC5.19D The IPSASB emphasized that the ability to extinguish or reduce a present obligation by methods other than fulfillment does not mean that an entity has a realistic alternative of avoiding a transfer of resources and therefore a rationale for non-recognition of a present obligation as a liability, which otherwise meets recognition criteria.

BC5.19E The 2014 Conceptual Framework included guidance that "if an obligation is contingent on future events occurring, there may be discretion to avoid an outflow of resources before these events occur". The IPSASB has deleted this guidance because it was inconsistent with the statement in paragraph 5.16A. that "to satisfy the definition of a liability the obligation must have the potential to require the entity to transfer resources to another party (or parties)".

BC5.19F The majority of respondents to ED 81 supported the enhanced guidance on "the transfer of resources". Some respondents felt that the term "transfers" has a particular connotation in the public sector, denoting transfers between different levels of government and transfers to individuals and households. They felt that there might be confusion between the broader usage in the Conceptual Framework and requirements and guidance at the standards level. The IPSASB acknowledged this point but felt that any confusion could be minimized by the use of clearly defined terms at the standards level.

BC5.19G A view was expressed in the consultation response that the Conceptual Framework should provide guidance on obligations related to the Treasury Single Account. The Treasury Single Account is an account or a set of linked accounts through which receipts and payments are transacted for all government departments. The IPSASB acknowledged that the Treasury Single Account is an important mechanism for central government financial administration in many jurisdictions. However, the IPSASB considered that the operation of the Treasury Single Account is too low-level a topic to be addressed in the Conceptual Framework.

Conditional and Unconditional Obligations

BC5.20 In the context of a present obligation, the IPSASB considered whether "conditional" and "unconditional" obligations, "stand-ready obligations" and "performance obligations" might be present obligations.

BC5.21 An unconditional obligation is one that stands on its own, independent of future events. Unconditional obligations give rise to liabilities if the definition of a liability is satisfied. A conditional obligation involves the possible occurrence of a future event, which may or may not be under the control of the reporting entity. The IPSASB concluded that it is possible for conditional obligations to give rise to liabilities as defined in the Conceptual Framework. Determining whether a conditional obligation satisfies the definition of a liability will involve consideration of the nature of the obligation and the circumstances in which it has arisen. Given the complexity of public sector programs and activities, identifying the past event (or events), which has (have) resulted in the entity having little or no realistic alternative to avoid an outflow of resources, often may not be straightforward. Guidance on whether conditional obligations that exist in particular arrangements or circumstances may give rise to liabilities consistent with the definitions identified in the Conceptual Framework is a standards-level issue.

BC5.22 A variety of terms are used to describe present obligations that may arise from, or exist in conjunction with, conditional obligations in particular circumstances. Amongst these are stand ready-obligations and performance obligations. The characteristics of these obligations and the conclusions reached by the IPSASB in the context of the Conceptual Framework are outlined below.

Stand-Ready Obligations

BC5.23 Stand-ready obligations are a type of conditional obligation. Stand-ready obligations require an entity to be prepared to fulfill an obligation if a specified uncertain future event outside the entity's control occurs (or fails to occur). The term stand-ready obligation is used to describe a liability that may arise in certain contractual circumstances, such as those related to insurance, certain financial instruments such as a derivative contract in a loss position, and for warranties where the entity has an obligation to transfer resources if a specified future event occurs (or does not occur). In such circumstances, there may be an identifiable past event and an outflow of resources from the entity, although the exact identity of the party to whom settlement will be made will not generally be known.

BC5.24 The 2010 Consultation Paper included a discussion of stand-ready obligations. Many respondents found the distinction between a stand-ready obligation and other conditional obligations ambiguous. The 2012 Exposure Draft explained that the term stand-ready obligation is not widely used in the public sector, does not work well in certain public sector circumstances, and suggested that whether a stand-ready obligation gave rise to a liability is a standards-level issue. Some respondents did not agree with the explanation in the 2012 Exposure Draft, and expressed a view that the Conceptual Framework should provide guidance for use at the standards level on whether stand-ready obligations can give rise to liabilities in certain circumstances.

BC5.25 A public sector entity's obligation to transfer resources to another entity in particular circumstances that may occur in the future includes, for example, as a potential lender of last resort and in support of programs that provide a wide range of social benefits. The existence of an obligation to transfer resources to another party in these circumstances may be dependent on ongoing satisfaction of a number of conditions of differing significance and nature that are subject to change by the government or public sector entity. The IPSASB is of the view that the circumstances in which liabilities arise as a consequence of the obligation of a public sector entity to transfer resources to other parties consistent with the terms of programs, and how such liabilities should be described and accounted for, should be considered at the standards level consistent with the principles established in the Conceptual Framework. The IPSASB decided that the Conceptual Framework should not resolve whether all obligations that might be classified as stand-ready meet the definition of a liability. The IPSASB also decided not to use the term "stand-ready obligation" in the Conceptual Framework.

Performance Obligations

BC5.26 A performance obligation is an obligation in a contract or other binding arrangement between an entity and an external party to transfer a resource to that other party. Performance obligations are often explicitly stated in a contract or other arrangement. Not all performance obligations are explicit. For example, a statutory requirement may give rise to an implicit performance obligation of a public sector entity that is additional to the terms of an agreement or contract.

BC5.27 A performance obligation also arises when an entity enters into an arrangement whereby it receives a fee and, in return, provides an external party with access to an asset of the government. The IPSASB concluded that it is not necessary to identify a specific external party for a performance obligation to arise, but it is important to analyze such obligations in order to determine whether they include a requirement to provide an outflow of resources. Obligations that require an entity to provide access to a resource, but do not entail a transfer of resources do not give rise to liabilities. However, obligations that require an entity to forgo future resources may be liabilities. Performance obligations are often conditional obligations. Determining whether such obligations give rise to liabilities is dependent upon the terms of particular binding agreements and may vary between jurisdictions. The IPSASB concluded that the circumstances under which performance obligations give rise to liabilities should be considered at the standards level.

Past Events

BC5.28 The IPSASB considered whether the definition of a liability should require the existence of a past transaction or other event. Some take the view that identification of a past event is not an essential characteristic of a liability, and that, consequently, there is no need for the definition of a liability to include a reference to a past event. These commentators argue that there may be many possible past events and that establishing the key past event is likely to be arbitrary. They suggest that the identification of a past event is not a primary factor in determining whether a liability exists at the reporting date. This view mirrors the opposition to the inclusion of a past event in the definition of an asset, which is discussed in paragraphs BC5.15–BC5.18.

BC5.29 The IPSASB acknowledges this view, but also noted that many respondents to the 2010 Consultation Paper and 2012 Exposure Draft consider that a past event is a characteristic of a liability. The IPSASB agrees with the view that the complexity of many public sector programs and activities and the number of potential points at which a present obligation might arise means that, although challenging, identification of the past event that gives rise to a liability is critical in determining when public sector liabilities should be recognized. The IPSASB reconsidered whether the definition of a liability should include a reference to past event(s) in the Limited Scope Update in 2020. The IPSASB reaffirmed the importance of past events and linked past events to present obligations.

An Incremental Transfer of Resources as a Result of Past Events

BC5.29A In developing proposals on revenue, the IPSASB acknowledged that the transfer of resources arising from a binding arrangement must be incremental in order to give rise to a liability. Paragraph 4.43 of the 2018 IASB Conceptual Framework provides guidance that the concept "as a result of past events" means that:

(a) An entity has already obtained economic benefits or taken an action; and

(b) As a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.

BC5.29B This guidance establishes a principle that, in order to meet the definition of a liability, the past events must give rise to an incremental transfer of resources. An obligation, which can be fulfilled without an incremental transfer of resources, is not a present obligation and does not meet the definition of a liability.

Little or No Realistic Alternative to Avoid

BC5.30 Some respondents to the 2012 Exposure Draft expressed concerns that the phrase "little or no realistic alternative to avoid" in the description of a present obligation is open to different interpretations. They proposed removal of the words "little or" from this phrase in order to reduce the potential for misinterpretation. The IPSASB considered this proposal. The IPSASB was concerned that such a change might be interpreted as establishing a threshold test of virtual certainty in determining whether a present obligation exists. The IPSASB considers such a threshold too high.

BC5.31 Determining when a present obligation arises in a public sector context is complex and, in some cases, might be considered arbitrary. This is particularly so when considering whether liabilities can arise from obligations that are not enforceable by legal or equivalent means. In the context of programs to deliver social benefits there are a number of stages at which a present obligation can arise and there can be significant differences between jurisdictions, even where programs are similar, and also over time within the same jurisdiction —for example, different age cohorts may have different expectations about the likelihood of receiving benefits under a social assistance program. Assessing whether a government cannot ignore such expectations and therefore has little or no realistic alternative to transfer resources may be subjective. This gives rise to concerns that such subjectivity undermines consistency in the reporting of liabilities, and can also impact adversely on understandability. Some therefore take the view that an essential characteristic of a liability should be that it is enforceable at the reporting date by legal or equivalent means.

BC5.32 A converse view is that where a government has a record of honoring obligations, failing to recognize them as liabilities leads to an overstatement of that government's net financial position. According to this view, if a government has a consistent record of raising citizen expectations through publicly-announced obligations to provide financial support—for example to the victims of natural disasters—and has met such obligations in the past, a failure to treat such obligations as liabilities is not in accordance with the objectives of financial reporting, and leads to the provision of information that does not meet the qualitative characteristics of faithful representation and relevance.

BC5.33 On balance, the IPSASB agrees with those who argue that, in the public sector, liabilities can arise from binding obligations that the entity has little or no realistic alternative to avoid, even if they are not enforceable in law. The IPSASB decided to use the term "non-legally binding obligations" for such obligations in the Conceptual Framework. However, the IPSASB acknowledges the views of those who are skeptical that liabilities can arise from obligations that are not legally enforceable. Consequently, paragraph 5.15F of this Chapter identifies the attributes that a non-legally binding obligation is to possess for it to give rise to a liability.

BC5.34 The wide variation in the nature of public sector programs and operations, and the different political and economic circumstances of jurisdictions globally, means that categorical assertions of the circumstances under which obligations not enforceable in law become binding and give rise to present obligations are inappropriate. However, the IPSASB is of the view that present obligations are extremely unlikely to arise from election pledges. This is because electoral pledges will very rarely, (a) create a valid expectation on the part of external parties that the entity will honor the pledge, and (b) create an obligation which the entity has no realistic alternative but to settle. Therefore, the Conceptual Framework includes a presumption that liabilities do not arise from electoral pledges. However, it is accepted that in practice a government with a large majority will be better placed to enact intended legislation than a minority government, and that there may be infrequent circumstances where a government announcement in such circumstances might give rise to a liability. In assessing whether, in these circumstances, a non-legally binding obligation gives rise to a liability the availability of funding to settle the obligation may be an indicator. This is discussed in paragraph 5.17C.

Sovereign Power to Avoid Obligations

BC5.35 The sovereign power to make, amend and repeal legal provisions is a key characteristic of governments. Sovereign power potentially allows governments to repudiate obligations arising from both exchange and non-exchange transactions. Although in a global environment such a power may be constrained by practical considerations, there are a large number of examples of governments defaulting on financial obligations over the last century. The IPSASB considered the impact of sovereign power on the definition of a liability. The IPSASB concluded that failing to recognize obligations that otherwise meet the definition of a liability on the grounds that sovereign power enables a government to walk away from such obligations would be contrary to the objectives of financial reporting and, in particular, may conflict with the qualitative characteristics of relevance and faithful representation. Many respondents to the Consultation Paper and the Exposure Draft supported this position. The IPSASB therefore concluded that the determination of the existence of a liability should be by reference to the legal position at the reporting date.

Commitments

BC5.36 Commitment accounting procedures are a central component of budgetary control for public sector entities in many jurisdictions. They are intended to assure that budgetary funds are available to meet the government's or other public sector entity's responsibility for a possible future liability, including intended or outstanding purchase orders and contracts, or where the conditions for future transfers of funds have not yet been satisfied. Commitments which satisfy the definition of a liability and the recognition criteria are recognized in financial statements, in other cases information about them may be communicated in notes to the financial statements or other reports included in GPFRs. The IPSASB concluded that commitment accounting might be addressed in the future when dealing with elements for the more comprehensive areas of general purpose financial reporting outside the financial statements.

Unit of Account and Accounting Principles for Binding Arrangements that are Equally Unperformed

Unit of Account

BC5.36A The 2018 IASB Conceptual Framework describes unit of account as 'the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and management concepts are applied'.

BC5.36B The IPSASB took the view that unit of account was a standards-level issue during the development of the 2014 IPSASB Conceptual Framework and there was no guidance on unit of account. Since 2014 the importance of decisions on the unit of account has been highlighted in a number of projects and led the IPSASB to reevaluate the case for high-level guidance.

BC5.36C The IPSASB decided that guidance in the Conceptual Framework would be beneficial in informing standards-level requirements and guidance on unit of account. The IPSASB drew on the 2018 IASB Framework for this guidance, which is in paragraphs 5.26A–5.26J. The guidance on consideration of how the selection of a unit of account provides useful information in the 2018 IASB Conceptual Framework is in the context of the qualitative characteristics of relevance and faithful representation. The IPSASB took the view that other qualitative characteristics may need to be taken into account in assessing whether information is useful in determining the unit of account.

BC5.36D There was considerable support for the Conceptual Framework providing guidance on the unit of account. The only significant issue to arise was the location of the guidance on accounting for binding arrangements that are equally unperformed (see paragraph BC5.36H). The IPSASB decided that Chapter 5 should address unit of account.

BC5.36E The IPSASB considered whether the unit of account for recognition could differ from the unit of account for measurement. The IPSASB acknowledged that it is possible that items might be recognized on an individual basis and measured on a group basis. An example is where financial instruments might be recognized individually but measured as a portfolio. Where different units of account are applied for recognition and measurement the reason(s) will be explained in the Basis for Conclusions of the individual standards.

Binding Arrangements that are Equally Unperformed

BC5.36F The 2014 IPSASB Conceptual Framework does not include guidance on executory contracts. In the Limited Scope Update, the IPSASB evaluated whether guidance should be added to the Conceptual Framework.

BC5.36G The 2018 IASB Conceptual Framework describes an executory contract as "a contract or a portion of a contract, that is equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent".

BC5.36H The IPSASB noted that the term "contract" has been problematic in some jurisdictions. This is because some public sector entities may not have powers to enter into contracts, although they may be able to enter into other binding arrangements. Consequently, the term "contract" has not been used widely in the Conceptual Framework. At the standards level the term "binding arrangement" has been generally used. The IPSASB has used this term in the Conceptual Framework. The IPSASB concluded that the principles of accounting for binding arrangements that are equally unperformed could be incorporated in the section on Unit of Account and that a separate section was unnecessary.

BC5.36I Most respondents to ED 81 supported the inclusion of guidance on accounting for binding arrangements that are equally unperformed. However, a number disagreed with the location of this guidance in the section of Unit of Account. They considered that the implications of the guidance extended beyond considerations related to unit of account to include areas such as the definition of an asset and a liability. They encouraged the IPSASB to relocate the guidance to a separate sub-section. The IPSASB accepted the views of these respondents and decided to relocate the guidance to a separate sub-section in paragraphs 5.26I and 5.26J.

Net Financial Position, Other Resources and Other Obligations

BC5.37 This section of the Basis for Conclusions outlines the IPSASB's approach to models of financial performance to be reported in the financial statements, and specifically the treatment of deferred inflows and deferred outflows.

Consultation Paper, Elements and Recognition in Financial Statements

BC5.38 The 2010 Consultation Paper discussed two contrasting approaches to financial performance:

- An approach that measures financial performance as the net result of all changes in the entity's resources and obligations during the period. This was described as the asset and liability-led approach; and
- An approach that measures financial performance as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period. This was described as the revenue and expense-led approach.

BC5.39 The 2010 Consultation Paper noted that the two different approaches could lead to different definitions of the elements related to financial performance and financial position. The revenue and expense-led approach is strongly linked to the notion of inter-period equity. Inter-period equity refers to the extent to which the cost of programs and providing services in the reporting period is borne by current taxpayers and current resource providers. The asset and liability-led approach is linked to the notion of changes in resources available to provide services in the future and claims on these resources as a result of period activity.

BC5.40 A further section of the 2010 Consultation Paper discussed Other Potential Elements and pointed out that, if IPSASB adopted the revenue and expense-led approach, IPSASB would need to address deferred flows. Under this approach, deferred flows are items that do not meet the proposed definitions of revenue and expense, but which are nevertheless considered to affect the financial performance of the period. The Consultation Paper identified three options for dealing with such flows:

- Defining deferred inflows and deferred outflow as elements on the statement of financial position;
- Broadening the asset and liability definitions to include items that are deferrals; or
- Describing deferred flows as sub-classifications of net assets/net liabilities (subsequently referred to as the residual amount).

BC5.41 The 2010 Consultation Paper had two specific matters for comment on these areas. The first asked constituents to indicate whether they preferred the asset and liability-led approach or revenue and expense-led approach and to indicate their reasons. The second asked whether deferred inflows and deferred outflows need to be identified on the statement of financial position. If respondents supported identification on the statement of financial position they were asked to indicate which of the three approaches in paragraph BC5.40 they supported.

BC5.42 The responses to these specific matters for comment were inconclusive. A small majority of respondents expressing a view favored the asset and liability-led approach. However, a number of respondents who supported the asset and liability-led approach also indicated that they favored identifying deferrals on the statement of financial position. The IPSASB took these views into account in the development of the 2012 Exposure Draft.

Exposure Draft, Elements and Recognition in Financial Statements

BC5.43 The 2012 Exposure Draft expressed a view that it is important to be able to distinguish flows that relate to the current reporting period from those that relate to specified future reporting periods. The 2012 Exposure Draft therefore proposed the following definitions of a deferred inflow and a deferred outflow:

- *A deferred inflow is an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period that results from a non-exchange transaction and increases net assets; and*
- *A deferred outflow is an outflow of service potential or economic benefits provided to another entity or party for use in a specified future reporting period that results from a non-exchange transaction and decreases net assets.*

BC5.44 The two key features of these definitions were:

- The proposed elements were restricted to non-exchange transactions; and
- The flows had to be related to a specified future period.

BC5.45 The IPSASB's rationale for including these characteristics were as risk-avoidance measures to reduce the possibility of deferred inflows and deferred outflows being used widely as smoothing devices, and to ensure that deferred inflows and deferred outflows are not presented on the statement of financial position indefinitely. The Exposure Draft included two Alternative Views. The first Alternative View considered the meaning of net financial position to be unclear in light of the combined impact of deferred inflows and deferred outflows. The second Alternative View disagreed with the view that deferred inflows and deferred outflows should be identified and recognized as separate elements and expressed a view that these flows meet the definitions of revenue and expense.

BC5.46 Many respondents disagreed with defining deferred inflows and deferred outflows as elements. Some expressed reservations about the implications for alignment with the IASB's Conceptual Framework, and IFRS Accounting Standards more generally. A number of respondents considered that the proposed approach did not reflect economic reality and that it would be more difficult to determine an objective basis for deferring revenue and expense under the revenue and expense-led approach. Nevertheless, a number of respondents also expressed the view that information on flows relating to particular reporting periods has information value.

BC5.47 The rationale for restricting the definitions to non-exchange transactions was challenged as conceptually weak both by respondents who favored defining deferred inflows and deferred outflows as elements and those opposed to these proposed elements. Respondents also disagreed with the restriction to specified time periods, because it would potentially lead to the different accounting treatment of very similar transactions dependent upon whether a specific period was identified—a grant without conditions receivable by an entity to finance its general activities for a five year period would have met the definition of a deferred inflow, whereas a similar grant for a future unspecified period would have met the definition of revenue.

Finalizing the Elements Chapter

BC5.48 The IPSASB considered that it needed to balance the limited support for the proposals on deferred flows in the 2012 Exposure Draft, and the perceived needs of users for information about flows relating to particular reporting periods.

BC5.49 The IPSASB therefore considered five options (A–E below) in responding to input from the due process and its perception of users' information needs:

A. Defining deferred inflows and deferred outflows as elements in a more principles-based manner and not specifying the financial statements in which the elements are to be recognized. As such, the Conceptual Framework would not predetermine the presentation of the elements;

B. Deriving the definitions of revenue and expense from the asset and liability definitions;

C. Broadening the asset and liability definitions;

D. Accepting that certain economic phenomena that do not meet the definition of any element may need to be recognized in financial statements in order to meet the objectives of financial reporting; and

E. Reporting inflows and outflows that provide service potential or economic benefits, but do not affect assets and liabilities as defined in the Conceptual Framework and reporting inflows and outflows that do not affect revenue and expense.

BC5.50 The IPSASB did not consider that defining deferred inflows and deferred outflows as elements in Option A is justified in light of the objections that respondents had made to the proposals in the 2012 Exposure Draft. The IPSASB therefore rejected Option A.

BC5.51 The IPSASB considered two variants of Option B. In the first variant deferred flows would be taken directly to surplus/deficit, while in the second variant deferred flows would initially be taken to residual amount and then recycled to surplus/deficit in the period that time stipulations occur.

BC5.52 The IPSASB considers that taking deferred flows directly to surplus/deficit under the first variant of Option B may not produce information that is representationally faithful of an entity's sustainable performance and therefore does not meet the objectives of financial reporting. The second variant of Option B relies on recycling and, in the view of some IPSASB members would have implicitly introduced the notion of "other comprehensive income" into the Conceptual Framework. The IPSASB has strong reservations about such a development. For these reasons the IPSASB rejected Option B.

BC5.53 The IPSASB noted that Option C would require changes to the definitions of an asset and a liability so that:

- The definition of an asset would include resources that an entity does not control; and
- The definition of a liability would include obligations that are not present obligations.

The IPSASB considers that such changes would distort the essential characteristic of an asset—that an entity controls rights to resources—and the essential characteristic of a liability—that an entity has a present obligation for an outflow of resources. In the view of the IPSASB this would make assets and liabilities less easily understandable. Adoption of such an option would also be a departure from globally understood definitions of an asset and a liability. For these reasons the IPSASB rejected Option C.

BC5.54 Option E was a hybrid approach that involved components of the other four options. It would allow reporting of inflows and outflows that provide service potential or economic benefits, but would not affect the definitions of an asset and liability and the reporting of inflows and outflows that do not affect revenue and expense as defined in the Conceptual Framework. The idea of this approach was to acknowledge that further conceptual thinking on financial performance is necessary.

BC5.55 Option D is broader than Option E because it is not necessarily restricted to deferred flows, but could encompass broader economic phenomena—for example obligations that are not present obligations, because, although they contain performance obligations, it is not clear that they require an outflow of resources. Option D acknowledges that there may be circumstances under which the six elements defined in the Conceptual Framework may not provide all the information in the financial statements that is necessary to meet users' needs. In the view of the IPSASB it is transparent to acknowledge that other items may be recognized. Unlike Option A, Option D does not involve defining additional elements, and, unlike Option C, Option D does not involve modification of generally understood definitions of an asset and a liability.

BC5.56 The IPSASB concluded that Option D provides the most transparent approach. The overarching term "other economic phenomena" is used in the introductory section of this chapter to describe such items and the more detailed terms "other obligations" and "other resources" are used subsequently. Option D also enhances the accountability of the IPSASB because the circumstances under which other obligations and other resources will be recognized will be determined at standards level and explained in the Bases for Conclusions of specific standards.

Financial Statements

BC5.57 Net financial position is the aggregate of an entity's net assets (assets minus liabilities) and other resources and other obligations recognized in the statement of financial position at the reporting date. Where resources and obligations other than those that meet the definition of the elements are recognized in the financial statements, the amounts reported as net assets and net financial position will differ. In these circumstances, the interpretation of net financial position will be determined by reference to the nature of the other resources and other obligations recognized in the financial statements under the relevant IPSAS.

BC5.58 The IPSASB considered whether it should use both the terms "net assets" and "net financial position" in the Conceptual Framework. The IPSASB acknowledges a view that net assets is a generally understood term. However, the IPSASB considered that using both terms could be confusing and therefore decided to use the term "net financial position" to indicate the residual amount of an entity.

Revenue and Expense

Gross or Net Increase in "Net Financial Position" in Definition of Revenue

BC5.59 The IPSASB considered whether the definition of revenue should specify that the increase in net financial position is “gross” or “net”. The IPSASB acknowledges that a gross approach might not be appropriate in areas such as the disposal of property, plant, and equipment where such an approach would require the full disposal proceeds to be recognized as revenue, rather than the difference between the disposal proceeds and the carrying amount. Conversely, a net approach might be similarly inappropriate in certain circumstances—for example, the sale of inventory. The IPSASB concluded that whether the increase in net financial position represented by revenue is presented gross or net should be determined at standards level, dependent on which treatment better meets the objectives of financial reporting.

Distinguishing Ordinary Activities from Activities outside the Ordinary Course of Operations

BC5.60 Some standard setters structure their definitions of elements so that, for example, inflows and outflows arising from transactions and events relating to activities in the ordinary course of operations are distinguished from inflows and outflows that relate to activities outside the ordinary course of operations. An example of this approach is to define revenue and expense as elements that relate to an entity’s “ongoing major or central operations”, and to define gains and losses as elements that relate to all other transactions, events and circumstances giving rise to increases or decreases in net assets[9].

BC5.61 The IPSASB acknowledges that distinguishing transactions and events related to the ordinary course of operations from transactions and events outside the ordinary course of operations can provide useful information for users of the financial statements. Therefore, it may be useful to adopt the terms “gains and losses” to reflect inflows and outflows from transactions and events outside the ordinary course of operations. However, the IPSASB is of the view that, conceptually, gains and losses do not differ from other forms of revenue and expense, because they both involve net increases or decreases of assets and/or liabilities. The IPSASB also noted that many respondents to the 2010 Consultation Paper and 2012 Exposure Draft shared this view. Therefore, the IPSASB decided not to define gains and losses as separate elements.

Ownership Interests in the Public Sector

BC5.62 As discussed in more detail in BC5.66-BC5.68, the IPSASB considered whether, and, if so, under what circumstances, ownership interests exist in the public sector and whether transactions related to ownership interests should be excluded from the definitions of revenue and expense. Because transactions with owners, in their role as owners, are different in substance to other inflows and outflows of resources the IPSASB concluded that it is necessary to distinguish flows relating to owners from revenue and expense. Therefore, ownership contributions and ownership distributions are defined as elements and excluded from the definitions of revenue and expense.

Surplus or Deficit in the Reporting Period

BC5.63 This chapter states that the difference between revenue and expense is the entity’s surplus or deficit for the period. The IPSASB considered whether it should provide explanatory guidance on the interpretation of surplus or deficit. The IPSASB discussed a view that public sector entities have operating and funding models. According to this view a surplus provides an indicator of the ability of the entity to:

- Reduce demands for resources from resource providers;
- Increase either the volume and/or quality of services to recipients;
- Reduce debt (where an entity has debt-raising powers); or
- A combination of these factors.

9 See, for example, Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*.

BC5.64 Conversely a deficit provides an indicator of:

- The need to increase demands on resources from resource providers;
- Reduce either the volume and/or quality of services to recipients;
- Increase debt (where an entity has debt-raising powers); or
- A combination of these factors.

BC5.65 The IPSASB acknowledges that there is a need for greater clarity on the meaning of surplus or deficit in the public sector, and therefore that aspects of the above approach might be developed further in the future. However, the IPSASB considered the concept of an operating and funding model or business model is not well developed in the public sector, and that developing an operating and funding model appropriate for all public sector entities is problematic. Therefore, the IPSASB decided not to include guidance on the interpretation of surplus or deficit in the Conceptual Framework.

Ownership Contributions, and Ownership Distributions

BC5.66 The IPSASB considered whether net financial position is a residual amount, a residual interest or an ownership interest. The IPSASB acknowledges the view that the interest of resource providers and service recipients in the long-term efficiency of the entity, its capacity to deliver services in the future and in the resources that may be available for redirection, restructuring or alternative disposition is similar to an ownership interest. The IPSASB also accepts that the terms "residual interest" and "ownership interest" have been used in some jurisdictions to characterize third parties' interests in net assets. The term "residual interest" indicates that service recipients and resource providers have an interest in the capability of the entity to finance itself and to resource future operations. The term "ownership interest" is analogous to the ownership interest in a private sector entity and, for some, indicates that the citizens own the resources of the public sector entity and that government is responsible to the citizens for the use of those resources. Some supporters of this approach argue that it emphasizes the democratic accountability of governments.

BC5.67 The IPSASB is of the view that the term "residual interest" may also suggest that service recipients and resource providers have a financial interest in the public sector entity. Similarly the term "ownership interest" may suggest that citizens are entitled to distributions from the public sector entity and to distributions of resources in the event of the entity being wound up. The IPSASB therefore concluded that the terms "residual interest" and "ownership interest" can be misunderstood or misinterpreted, and that net financial position is a residual amount that should not be defined.

BC5.68 However, the IPSASB acknowledges that part of net financial position can in certain circumstances be an ownership interest. Such instances may be evidenced by the entity having a formal equity structure. However, there may be instances where an entity is established without a formal equity structure, with a view to sale for operation as a commercial enterprise or by a private sector not-for-profit entity. An ownership interest can also arise from the restructuring of government or public sector entities, such as when a new government department is created. The IPSASB therefore considered whether ownership interests should be defined as an element. The IPSASB acknowledges the view that identifying the resources (or claims on future resources) attributable to owners provides information useful for accountability and decision-making purposes. The IPSASB concluded that such interests can be identified through the sub-classification of net financial position. However, the IPSASB also concluded that it is important to distinguish inflows of resources from owners and outflows of resources to owners, in their role as owners, from revenue, expense, other resources and other obligations. Therefore, ownership contributions and ownership distributions are defined as elements. Detailed guidance to support the assessment of whether certain inflows and outflows of resources satisfy the definitions of ownership contributions and ownership distributions will be developed at standards level, as appropriate.

CHAPTER 6: RECOGNITION IN FINANCIAL STATEMENTS

CONTENTS

Recognition Criteria and their Relationship to Disclosure

6.1 This chapter identifies the criteria that must be satisfied in order for an element to be recognized in the financial statements. Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in GPFRs.

6.2 The recognition criteria are that:

- An item satisfies the definition of an element; and
- Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

6.3 All items that satisfy the recognition criteria are recognized in the financial statements. In some circumstances, an IPSAS may also specify that, to achieve the objectives of financial reporting, a resource or obligation that does not meet the definition of an element is to be recognized in the financial statements provided it can be measured in a way that meets the qualitative characteristics and constraints. Other resources and other obligations are discussed in Chapter 5, *Elements in Financial Statements*.

6.4 Recognition involves an assessment of uncertainty related to the existence and measurement of the element. The conditions that give rise to uncertainty, if any, can change. Therefore, it is important that uncertainty is assessed at each reporting date.

Definition of an Element

6.5 In order to be recognized as an element an item must meet the definition of one of the elements in Chapter 5. Uncertainty about the existence of an element is addressed by considering the available evidence in order to make a neutral judgment about whether an item satisfies all essential characteristics of the definition of that element, taking into account all available facts and circumstances at the reporting date.

6.6 If it is determined that an element exists, uncertainty about the amount of service potential or ability to generate economic benefits represented by that element is taken into account in the measurement of that element (see paragraphs 6.7 and 6.8). Preparers review and assess all available evidence in determining whether an element exists and is recognized, whether that element continues to qualify for recognition (see paragraph 6.9), or whether there has been a change to an existing element.

Measurement Uncertainty

6.7 In order to recognize an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements. The selection of an appropriate measurement basis is considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*.

6.8 There may be uncertainty associated with the measurement of many amounts presented in the financial statements. The use of estimates is an essential part of the accrual basis of accounting. A decision about the relevance and faithful representativeness of measurement involves the consideration of techniques, such as using ranges of outcomes and point estimates, and whether additional evidence is available about economic circumstances that existed at the reporting date. Disclosures can provide useful information on estimation techniques employed. There may be rare instances in which the level of uncertainty in a single point estimate is so large that the relevance and faithful representativeness of the measure is questionable even if disclosures are provided to explain estimation techniques. Under these circumstances the item is not recognized.

Disclosure and Recognition

6.9 The failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail. However, disclosure can provide information about items that meet many, but not all the characteristics of the definition of an element. Disclosure can also provide information on items that meet the definition of an element but cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting. Disclosure is appropriate when knowledge of the item is considered to be relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting.

Derecognition

6.10 Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognized from the financial statements, and removing the item if such changes have occurred. In evaluating uncertainty about the existence of an element the same criteria are used for derecognition as at initial recognition.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Recognition and its Relationship to the Definition of the Elements

BC6.1 The IPSASB considered whether recognition criteria should be integrated in definitions of the elements. The IPSASB acknowledges the view that the inclusion of recognition criteria in definitions of the elements enables preparers to consider all the factors that must be taken into account in evaluating whether an item of information is recognized as an element in the financial statements. However, the IPSASB is of the view that while there is overlap in factors to be considered in determining whether an item satisfies the definition of an element and whether that element qualifies for recognition, recognition should be considered as a distinct stage in the financial reporting process. This is because recognition is broader than whether the definition of an element is satisfied. The IPSASB also noted that few respondents to the Consultation Paper and Exposure Draft supported the integration of recognition criteria in element definitions. After considering the input from the due process, the IPSASB concluded that the definitions of elements should not include recognition criteria.

BC6.2 In determining whether an element should be recognized there are two types of uncertainty that need to be considered. The first is uncertainty about whether the definition of an element has been satisfied. The second is measurement uncertainty—whether the element can be measured in a manner that achieves the qualitative characteristics. Measurement uncertainty is considered if it is determined that the definition of an element has been met. While recognition is viewed as a distinct stage in the accounting process, matters relevant to an assessment of uncertainty over the existence of an element will have been considered in determining whether the item satisfies the definition of an element.

Satisfying the Definition of an Element

BC6.3 The IPSASB considered whether, in dealing with uncertainty over the existence of an element, standardized probability threshold criteria should be adopted, or whether all available evidence should be used to make neutral judgements about an element's existence.

BC6.4 Standardized evidence thresholds filter out items that have a low probability of resulting in an inflow or outflow of service potential or the ability to generate economic benefits. Such items may have high monetary values, even though the probability of existence may be low. Some consider that it is more appropriate to disclose such items rather than to recognize them. Threshold criteria are also justified on cost grounds, because only after a preparer has formed an initial judgement about whether those threshold criteria have been met does that preparer consider how that element should be measured.

BC6.5 The IPSASB formed a view that the adoption of thresholds for recognition purposes risks omitting information that is relevant and faithfully representative, because similar information items may be treated in different ways dependent upon relatively small differences in the probability of a flow of benefits. The IPSASB acknowledges that such risks can also exist for approaches which do not specify thresholds for recognition. This is because preparers will make their own assessments of the circumstances or "the threshold" that justifies recognition, and those assessments can change for different items and over time. However, the IPSASB concluded that, on balance, an approach that is based on an assessment of all available evidence in determining whether an element exists and takes account of uncertainty about the flows of service potential or the ability to generate economic benefits in measurement is a more appropriate response to the uncertainty faced by preparers of financial statements. It is more likely to result in the recognition of information that satisfies the qualitative characteristics than the establishment of an arbitrary threshold that must be adhered to. Guidance may be provided at standards level on dealing with circumstances in which there is significant uncertainty about whether an element exists in particular circumstances, and therefore whether it would satisfy the criteria for recognition.

BC6.6 The IPSASB explored whether uncertainty about the existence of an element is specific to certain characteristics of assets and liabilities—in particular for assets whether an entity controls rights to a resource and for liabilities whether an entity has little or no realistic alternative to avoid an outflow of service potential or economic benefits. The rationale for such a view is that these are the essential characteristics of an asset and a liability where uncertainty is likely to arise.

BC6.7 The IPSASB is of the view that, uncertainty relates to more than just these characteristics. There might also be uncertainty about the existence of a present obligation and a past event for liabilities and, for assets whether a resource that generates future economic benefits or service potential presently exists, rather than a future resource or future right to a resource. As noted in paragraph BC6.2, these matters will also have been considered in determining whether an item satisfies the definition of an element.

Derecognition

BC6.8 The IPSASB considered whether the same criteria should be used for initial recognition and derecognition. Many of the respondents to the Consultation Paper and the Exposure Draft supported the use of the same criteria for derecognition as for initial recognition. The IPSASB concluded that adopting different recognition criteria would conflict with the qualitative characteristic of consistency as it would result in the recognition of items with different standards of evidence for their existence. Therefore, the same recognition criteria should be used for initial recognition and derecognition.

CHAPTER 7: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

CONTENTS

Introduction

7.1 This Chapter identifies the measurement concepts that guide the IPSASB in the selection of the most commonly used measurement bases for IPSAS and for preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in IPSAS.

The Objective of Measurement

7.2 The objective of measurement is:

To select those measurement bases that most fairly reflect the cost of services, operational capacity, and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

7.3 The selection of measurement bases for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess:

- Cost of services—the cost of services provided in the period in historical or current terms;
- Operational capacity—the capacity of the entity to support the provision of services through physical and other resources; or
- Financial capacity—the capacity of the entity to fund its activities.

7.4 The selection of measurement bases also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports. The following subsections provide guidance on measurement at recognition (initial measurement) and measurement subsequent to recognition (subsequent measurement).

Initial Measurement

7.5 Initial measurement for an asset is at transaction price plus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration given to acquire, construct or develop an asset. Transaction costs for assets are incremental costs that are directly attributable to the acquisition, construction, or development, of an asset and would not have been incurred if the entity had not acquired, constructed, or developed the asset. Transaction price plus transaction costs is the historical cost for an asset.

7.6 Initial measurement for a liability is at transaction price minus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration received to assume an obligation. Transaction costs for liabilities are incremental costs that are directly attributable to the incurrence of a liability and would not have been incurred if the entity had not incurred the liability. Transaction price minus transaction costs is the historical cost for a liability.

7.7 For both assets and liabilities, where there are no transaction price data available or if the transaction price does not faithfully present relevant information about the asset and liability of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes, a deemed cost is used.

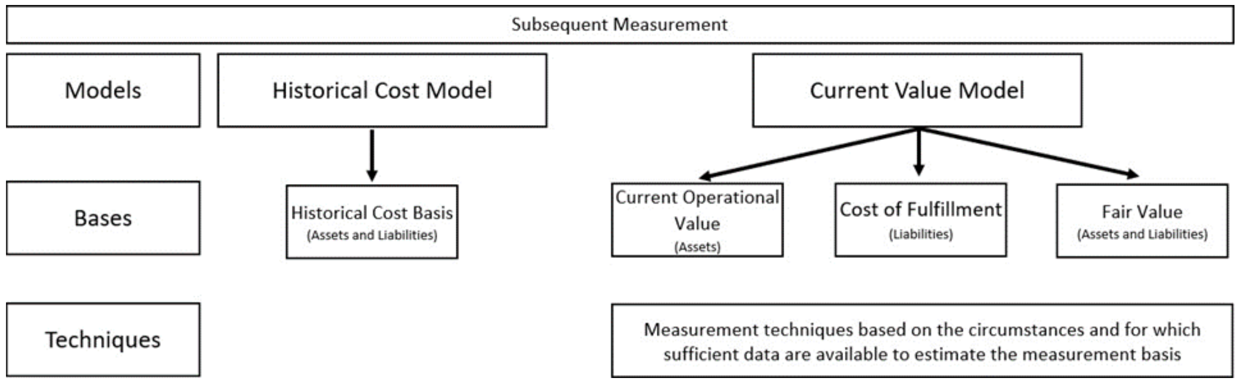
Subsequent Measurement

7.8 Subsequent to initial measurement there are three levels of measurement:

- Measurement models;
- Measurement bases; and

- Measurement techniques.

Diagram 1: The subsequent measurement framework and the relationship between the three levels



7.9 **Measurement models** are the broad approaches for measuring assets and liabilities for inclusion in the financial statements.

7.10 Under the historical cost model, assets and liabilities are measured at historically based amounts. Changes in value due to price changes are not reflected, except for impairments for assets and where an obligation becomes onerous[10] for liabilities.

7.11 Under the current value model, assets and liabilities are measured using information updated to reflect price changes to the measurement date.

7.12 **Measurement bases** are specific ways of measuring assets and liabilities under the selected measurement model. Measurement bases provide information that best meets the qualitative characteristics while taking into account the constraints on information in financial reports.

7.13 Subsequent measurement may be either on the historical cost measurement basis or on one of the measurement bases under the current value model (see paragraph 7.15).

7.14 **Measurement techniques** are methods to estimate the amount at which an asset or liability is measured under the selected measurement basis. The selection of a measurement technique depends on factors such as the characteristics of an asset or a liability and the availability of observable data. Guidance on measurement techniques is provided at the standards level.

The Selection of Measurement Models and Measurement Bases

7.15 It is not possible to identify a single measurement model or measurement basis that best meets the measurement objective at a conceptual level for all circumstances. Therefore, the Conceptual Framework does not propose a single measurement model or measurement basis (or combination of bases) for all transactions, events, and conditions. It provides guidance on the selection of a measurement model and a measurement basis for assets and liabilities from those bases most commonly used in order to meet the measurement objective. It may be necessary to select measurement bases from different measurement models in order to meet the measurement objective.

7.16 The following measurement bases for assets are identified and discussed in terms of the information they provide about (a) the cost of services delivered by an entity, (b) the operational capacity and the financial capacity of an entity; and (c) the extent to which they provide information that meets the qualitative characteristics while taking into account the constraints on information in financial reports:

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10 An obligation is onerous when the unavoidable costs of meeting the obligation under a binding arrangement exceed the economic benefits or service potential expected to be received under the binding arrangement.

- Historical cost;
- Current operational value; and
- Fair value.

7.17 Value in use is used solely for the impairment of assets, and therefore is discussed separately in paragraphs 7.57–7.62.

7.18 The following measurement bases for liabilities are identified and discussed:

- Historical cost;
- Cost of fulfillment; and
- Fair value.

7.19 The next two sub-sections discuss classifying measurement bases as entity or non-entity specific and entry-based or exit-based.

Entity-Specific and Non-Entity-Specific Measures

7.20 Measurement bases may be classified according to whether they are “entity-specific” or “non-entity- specific”. Measurement bases that are entity-specific reflect the economic, legal and other constraints that affect the possible uses of an asset or the fulfillment of a liability by an entity. Entity-specific measures may reflect economic opportunities that are not available to other entities and risks to which other entities are not exposed. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measurement basis is taken by reference to the measurement objective and the qualitative characteristics. Tables 1 and 2 classify the measurement bases for assets and liabilities as entity-specific or non-entity-specific.

Table 1: Classification of Measurement Bases for Assets as Entity-Specific or Non-Entity-Specific

Measurement Basis	Entity-Specific or Non-Entity-Specific
Historical cost	Entity-specific
Current operational value	Entity-specific
Fair value	Non-entity-specific

Table 2: Classification of Measurement Bases for Liabilities as Entity-Specific or Non-Entity Specific

Measurement Basis	Entity -Specific or Non-Entity-Specific
Historical cost	Entity-specific
Cost of fulfillment	Entity-specific
Fair value	Non-entity-specific

Entry and Exit Values

7.21 Measurement bases provide either entry or exit values. For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. Current operational value and historical cost are entity specific measures for assets and are entry values. Fair value is a market-based, non-entity specific measure, and is an exit value.

7.22 For liabilities, entry values relate to the transaction or event under which an obligation is incurred. Exit values reflect the amount required to fulfill or transfer an obligation. For example, historical cost is an entity specific measure for liabilities and is an entry value, Cost of fulfillment is an entity specific measure and fair value is a market- based, non-entity specific measure; both measures are exit values.

7.23 Identifying whether measurement bases provide entry or exit values supports the determination of the approach to transaction costs. Entry-based measurement bases normally include transaction costs on the acquisition, construction, or development of an asset and on the incurrence of a liability. Exit-based measurement bases normally include transaction costs on sale of an asset or fulfillment or transfer of a liability.

Level of Aggregation or Disaggregation for Measurement

7.24 In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics, it may be necessary to aggregate or disaggregate them for measurement purposes. In assessing whether such an aggregation or disaggregation is appropriate, consideration is given to:

- Guidance on unit of account in Chapter 5;
- The materiality of aggregation or disaggregation; and
- The costs of aggregation or disaggregation compared with the benefits in terms of the extent to which the aggregation or disaggregation meets the objectives of financial reporting.

Measurement Bases for Assets

7.25 This section discusses the following measurement bases for assets:

- Historical cost;
- Current operational value; and
- Fair value.

Historical Cost

7.26 Historical cost for an asset is:

The consideration given to acquire, construct, or develop an asset at the time of its acquisition, construction, or development plus transaction costs.

7.27 Consideration is the cash or cash equivalents, or the value of other resources given. Historical cost is an entity-specific measurement basis reflecting the costs incurred in acquiring, constructing, or developing an asset. Subsequent to initial measurement, the historical cost for certain assets may be allocated as an expense to reporting periods in the form of depreciation or amortization. Depreciation and amortization represent the consumption of the service potential or ability to generate economic benefits provided by such assets over their useful lives. Consistent with the historical cost model, following initial measurement, the carrying amount of an asset is not changed to reflect changes in prices, except where related to impairment (see below paragraph 7.28).

7.28 Under the historical cost model, the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset has diminished due to changes in economic or other conditions, which is distinct from the consumption of an asset. This involves an assessment of the recoverable amount of an asset. Depreciation, amortization, and impairment may also be relevant to measurement bases under the current value model (see paragraph 7.35). Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements or other events, such as the accrual of interest on a financial asset.

Cost of Services

7.29 Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire, construct, or develop assets consumed in the provision of services. Historical cost generally is based on the transactions actually entered into by the entity. As the costs used are those carried forward from an earlier period without adjustment for price changes, they do not reflect the current cost of assets when the assets are consumed. As the cost of services is reported using past prices, historical cost information will not facilitate the assessment of the future cost of providing services if cumulative price changes since acquisition, construction, or development are significant. Where budgets are prepared on the historical cost basis, historical cost information demonstrates the extent to which the budget has been executed.

Operational Capacity

7.30 If an asset has been acquired, constructed, or developed in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their acquisition cost. At the time an asset is acquired, constructed, or developed, it can be assumed that the value to the entity of its service potential is at least equal to the cost of its acquisition, construction, or development. When depreciation or amortization is recognized, it reflects the extent to which the service potential of an asset has been consumed. Historical cost information shows that the resources available for future services are at least equal to the amount at which they are stated. Where an asset has been acquired, constructed, or developed in a non-exchange transaction, the transaction price will not provide information on operational capacity that meets the qualitative characteristics while taking into account the constraints on information in financial reports (also see paragraph 7.7).

Financial Capacity

7.31 The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost, less depreciation or amortization, and any accumulated impairment losses can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be derived from use of the asset and received on sale of an asset and reinvested in assets to provide different services. Historical cost does not provide this information when significantly different from current values.

Application of the Qualitative Characteristics

7.32 Paragraphs 7.29–7.31 explain the areas where historical cost provides relevant information with confirmatory or predictive value. Application of historical cost is often straightforward because transaction information is usually readily available. As a result, amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent-that is, the cost to acquire, construct, or develop an asset based on actual transactions. As application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are generally verifiable and understandable, and can be prepared on a timely basis.

7.33 Historical cost information is comparable to the extent that assets have the same or similar acquisition, construction, or development dates. Historical cost does not reflect the impact of price changes, so it is not possible to compare meaningfully the amounts of assets that were acquired, constructed, or developed at different times when prices differed.

7.34 In certain circumstances, the application of historical cost necessitates the use of allocations-for example where:

- Several assets are acquired in a single transaction;
- Assets are constructed or developed by the entity itself and overheads and other costs have to be attributed; and
- The use of a flow assumption, such as first-in-first-out, is necessary when many similar assets are held.

To the extent that such allocations are arbitrary, they reduce the extent to which the resulting measurement achieves the qualitative characteristics.

Measurement Bases for Assets under the Current Value Model

7.35 Measurements under the current value model reflect the economic environment prevailing at the reporting date. Depreciation, amortization, and impairment, which are discussed in the context of the historical cost measurement model in paragraphs 7.27 and 7.28, are also relevant to current value measurement bases in certain circumstances. Additions and enhancements may affect measurements under current operational value and fair value.

7.36 Where an asset is used for service provision and also generates economic benefits, an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity and selects the current operational value measurement basis, or the fair value measurement basis based on that analysis. In making such a judgment an entity has regard to the appropriate unit of account. Guidance on unit of account is provided in Chapter 5.

Current Operational Value

7.37 Current operational value is:

The amount the entity would pay for the remaining service potential of an asset at the measurement date.

7.38 Current operational value presents an entity-specific measurement of an existing asset held for its operational capacity. Current operational value reflects:

- The amount the entity would pay for the remaining service potential of the asset in the least costly manner.
- The remaining service potential of the asset taking into account the current condition of the asset.
- The asset's existing use and location.

7.39 An asset supports an entity delivering services in its existing use. 'Existing use' is the way an existing asset is used, rather than an alternative use, and generally reflects the policy objectives of the entity operating the asset. Current operational value therefore assumes that an asset will continue to be used for service delivery rather than being sold.

Cost of Services

7.40 The cost of services is reported in current terms when based on current operational value. Thus, the amount of assets consumed is related to the value of the assets at the time they are consumed- and not, as with historical cost, at the time they were acquired, constructed, or developed. This provides a basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period-which are generally transactions of the current period and measured in current prices-and for assessing whether resources have been used economically and efficiently. It may also provide a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition, construction, or development dates, and for assessing the cost of providing services in the future and future resource needs. This is because future costs are more likely to resemble current costs than those incurred in the past when prices were different.

Operational Capacity

7.41 As indicated in paragraph 7.40, current operational value provides a measure of the resources available to provide services in future periods based on current policy, as it is focused on the current value of assets and their remaining service potential to the entity.

Financial Capacity

7.42 Current operational value does not provide information on an asset's ability to generate economic benefits or the amounts that would be received on its sale. It therefore may not facilitate an assessment of financial capacity.

Application of the Qualitative Characteristics

7.43 Current operational value focuses on the amount the entity would pay for the remaining service potential of an asset which supports the achievement of an entity's policy objectives. Current operational value therefore provides information that is both relevant and faithfully representative.

7.44 Current operational value information is comparable within an entity, as assets that provide equivalent service potential are stated at similar amounts, regardless of when those assets were acquired, constructed, or developed. Different entities may report similar assets at different amounts because current operational value is an entity-specific measure that reflects the opportunities available to the entity to obtain an asset to achieve an entity's policy objectives. These opportunities may be the same or similar for different entities. Where they are different, the economic advantage of an entity that is able to acquire, construct or develop assets at lower cost is reported in financial statements through lower asset values and a lower cost of services. This reinforces the ability of current operational value to provide relevant and faithfully representative information. The extent to which current operational value measures meet the qualitative characteristics of timeliness, understandability and verifiability depends on the nature of the asset and the estimation techniques used.

Fair Value

7.45 Fair value for an asset is:

The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

7.46 Fair value is appropriate where the asset is being held primarily for its ability to generate economic benefits or with a view to sale. The extent to which fair value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded.

7.47 In principle, fair value measurements provide useful information because they fairly reflect the value of the asset to the entity. In an orderly market (see paragraph 7.49), the asset cannot be valued at less than fair value, as, disregarding transaction costs, the entity can obtain at least fair value by selling the asset. The asset cannot be valued at more than fair value, as the entity can obtain the same ability to generate economic benefits by purchasing the same or a similar asset in the market.

7.48 The usefulness of fair value may be more questionable when the assumption that markets are orderly does not hold. In such circumstances it cannot be assumed that the asset may be sold for the same price as that at which it can be acquired. Although the purchase of an asset provides evidence that the value of the asset to the entity is at least equal to its purchase price at that time, operational factors may mean that the value to the entity may be greater. Hence, fair value may not reflect the value to the entity of the asset, represented by its operational capacity. Therefore, fair value may not be useful for operational assets that an entity intends to continue to use for service delivery.

Orderly Markets

7.49 Orderly markets have the following characteristics:

- There are no barriers that prevent the entity from transacting in the market;
- There is sufficient frequency and volume of transactions to provide price information; and
- There are many well-informed buyers and sellers acting without compulsion, so there is an assurance of "fairness" in determining current prices-including that prices do not represent distress sales.

An orderly market is one that is run in a reliable, secure, accurate and efficient manner. Such markets deal in assets that are identical and therefore mutually interchangeable, such as commodities, currencies, and securities where prices are publicly available. In practice few markets, if any, fully exhibit all of these characteristics, but some may approach an orderly market.

Fair Value where Markets Cannot be Assumed to be Orderly

7.50 Markets for assets that are unique and rarely traded are unlikely to be orderly: any purchases and sales are individually negotiated, and there may be a large range of prices at which a transaction might be agreed. Therefore, participants will incur significant costs to purchase or to sell an asset. Where markets are not orderly, it is necessary to use a measurement technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. Such measurement techniques require inputs that are directly or indirectly observable, where possible, or unobservable where observable inputs cannot be identified.

7.51 Fair value permits a return on assets to be reported. However, public sector entities for which the IPSASB develops and maintains standards do not generally carry out activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidized terms. Consequently, there may be limited relevance in a reported return derived from fair value.

Cost of Services

7.52 Fair value reflects the asset's ability to generate economic benefits and the price expected to be received on sale. Therefore, when an asset is primarily held for its operational capacity, fair value provides less useful information for the cost of services than current operational value, which can reflect the value of an asset in its existing use.

Operational Capacity

7.53 The usefulness of information on the fair value of assets held to provide services is limited. If fair value is significantly lower than historical cost, fair value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity. Fair value is also likely to be less relevant than current operational value, as the highest and best financial use principle that underpins fair value is inappropriate for assets primarily held for operational capacity.

Financial Capacity

7.54 An assessment of financial capacity requires information on an asset's ability to generate economic benefits and the amount that would be received on sale of an asset. This information is provided by fair value. Fair value is therefore an appropriate measurement basis where assets are held for sale or where assets previously held for their operational capacity are surplus to operational requirements.

Application of the Qualitative Characteristics

7.55 Values determined in orderly markets can be readily used for financial reporting purposes. The information will meet the qualitative characteristics-that is it will be relevant, representationally faithful, understandable, comparable, and verifiable. As such information can be available quickly, it is also likely to be timely.

7.56 The extent to which fair value measurements meet the qualitative characteristics will decrease as the quality of market evidence diminishes and the determination of such values relies on estimation techniques. As indicated above, fair value is only likely to be relevant to assessments of financial capacity and not to assessments of the cost of services and operational capacity.

Value in Use

7.57 Value in use is applicable for assessments of impairment. Impairment testing involves determining whether the amount at which an asset is stated on the statement of financial position is recoverable.

7.58 Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of the asset and from its sale at the end of its useful life. This requires the discounting of cash flows to a present value.

7.59 Value in use of a non-cash-generating asset is the asset's remaining service potential at the measurement date. The estimation of service potential requires the use of techniques, which are dependent on the nature of the asset and, because of its applicability to impairment, the indicator of impairment.

7.60 Value in use for cash-generating assets is complex and subjective, as it requires the projection of cash flows from an entity perspective. Further complexity arises where assets are deployed in combination with other assets. In such cases, value in use can be estimated only by calculating the present value of the cash flows of a group of assets, rather than on an individual basis. Allocations are then made to individual assets. Such allocations may be arbitrary, thereby having an adverse impact on faithful representation.

7.61 Value in use for non-cash-generating assets is also complex, as it requires entity-specific estimates of an asset's remaining service potential.

7.62 Paragraph 7.36 discusses the situation where an asset is used for service provision and also generates economic benefits, noting that an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity, and selects the current operational value measurement basis or the fair value measurement basis accordingly. This factor and the complexity and subjectivity discussed above mean that value in use in both a cash-generating and non-cash-generating context is likely to be applicable only to accounting for losses or reversals of losses related to impairment.

Measurement Bases for Liabilities

7.63 This section discusses the measurement bases for liabilities. This section does not repeat all the discussion in the section on assets. It considers the following measurement bases:

- Historical cost;
- Cost of fulfillment; and
- Fair value.

Historical Cost

7.64 Historical cost for a liability is:

The consideration received to assume an obligation minus transaction costs, at the time the liability is incurred.

7.65 Consideration is the cash or cash equivalents, or the value of other consideration given. Under the historical cost model initial measures are adjusted by using a technique to reflect factors such as the accrual of interest, the accretion of a discount or amortization of a premium.

7.66 Where the time value of a liability is material-for example, where the length of time before settlement falls due is significant-the amount of the future payment is discounted so that, at the time a liability is initially measured, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.

7.67 Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.

Cost of Fulfillment

7.68 Cost of fulfillment is:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner at the measurement date.

7.69 Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account to estimate cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.

7.70 Where fulfillment requires work to be done–for example, where the liability is to rectify environmental damage–the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly way of fulfilling the obligation.

7.71 Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of fulfillment is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.

7.72 Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date.

7.73 Cost of fulfillment is generally relevant for measuring liabilities except in circumstances where the entity can obtain release from an obligation at an amount lower than the cost of fulfillment.

Fair Value

7.74 Fair value for a liability is:

The price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

7.75 Fair value may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an orderly market. However, in cases where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear, the case for fair value is weaker. This is particularly the case for liabilities arising from obligations in non-exchange transactions because it is unlikely that there will be an orderly market for such liabilities.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Background to the Development of the Conceptual Framework and its Updating

BC7.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (The Conceptual Framework) was approved in September 2014. The development of the Conceptual Framework included a number of consultation papers and exposure drafts. On approval the IPSASB did not commit to a review of the Conceptual Framework within a specified timeframe. Although views were expressed that the Conceptual Framework should be a "living document" subject to regular updates, there was a broader view that it should be allowed to "bed down" for a significant period. Over-frequent amendments to the Conceptual Framework could also undermine the accountability that it imposes on the IPSASB in explaining approaches developed at the standards level.

BC7.2 In 2018, after having applied the 2014 Conceptual Framework in standards development for over three years, the IPSASB considered that a limited review of certain aspects of the Conceptual Framework would be appropriate. The IPSASB's project on Measurement was a principal factor. In addition, the International Accounting Standards Board (IASB) was about to issue its finalized Conceptual Framework with post-2014 developments on measurement of potential relevance to the public sector. The IPSASB therefore proposed a Limited-scope Update project in the consultation on its Strategy and Work Plan in 2018. The proposed project received significant support from respondents for the reasons outlined by the IPSASB. The IPSASB initiated the project in March 2020. Exposure Draft (ED) 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, was issued in April 2021. The IPSASB considered the points raised by respondents to the exposure draft in finalizing the revised Chapter 7. The revised Chapter 7 became applicable when approved.

BC7.3 The IPSASB decided that the initial focus of the 2014 Conceptual Framework should be on measurement of the elements for the financial statements in order to put future standard setting activities for the financial statements on a sound and transparent footing. While a few respondents to the Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements* in 2010 (the 2010 Consultation Paper), questioned this approach, the IPSASB considered that the original rationale for restricting the scope of this phase was sound and reaffirmed it. The Limited-scope Update project initiated in 2020 did not reopen this issue and continued to focus on the financial statements.

The Objective of Measurement

BC7.4 In developing the 2014 Conceptual Framework the IPSASB considered whether a specific measurement objective should be developed. The IPSASB initially took the view that a separate measurement objective was unnecessary because a measurement objective might compete with, rather than complement, the objectives of financial reporting and the qualitative characteristics of financial reporting. Accordingly, the 2013 Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements* (the 2013 Exposure Draft), proposed factors relevant to the selection of a measurement basis consistent with the objectives of financial reporting and the qualitative characteristics but did not include a measurement objective.

BC7.5 Consistent with this approach the 2013 Exposure Draft proposed that the Conceptual Framework would not seek to identify a single measurement basis (or combination of bases) for all circumstances. The IPSASB acknowledged that proposing a single measurement basis to be used in all circumstances would clarify the relationship between different amounts reported in the financial statements-in particular, it would allow the amounts of different assets and liabilities to be aggregated to provide meaningful totals. However, the IPSASB is of the view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics.

BC7.6 The 2013 Exposure Draft included an Alternative View which proposed a measurement objective on the grounds that a Conceptual Framework that does not connect the objective of measurement with the objectives of financial reporting is incomplete and would limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time. Further, in the absence of a measurement objective, the Alternative View considered that there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities. The Alternative View proposed the following measurement objective:

To select those measurement attributes that most fairly reflect the financial capacity, operational capacity, and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

BC7.7 Many respondents, while generally in favor of the approach in the 2013 Exposure Draft, supported the Alternative View. The IPSASB also acknowledged the view that the Conceptual Framework's approach to measurement should be aspirational and that the Conceptual Framework should identify a single measurement model or measurement basis underpinned by an ideal concept of capital[11]. The IPSASB accepts that a concept of capital related to operating capability is relevant and could be developed for public sector entities with a primary objective of delivering services. However, adoption of such a measurement objective involves a virtually explicit acknowledgement that current cost measures are superior to historical cost measures in representing operational capacity when financial position is reported. For the reasons discussed in paragraphs BC7.25–BC7.27, the IPSASB considers that historical cost measures often meet the measurement objective and therefore should be given appropriate emphasis in the Conceptual Framework.

BC7.8 Subsequently, the IPSASB was persuaded by the views of those who argued that a measurement objective is necessary in order to guide standard-level decisions on the selection of measurement bases. However, the IPSASB noted that assets and liabilities contribute to the financial performance and financial position of entities in different ways and that such an assessment should be based on the extent to which they contribute to operational capacity and financial capacity. The IPSASB concluded that linking a measurement objective to an ideal concept of capital might unduly restrict the choice of measurement bases. The IPSASB therefore rejected the view that adoption of the measurement objective should be based on an ideal concept of capital and reaffirmed its view that a mixed measurement approach is appropriate for standard setting in the public sector.

BC7.9 The IPSASB considered whether the measurement objective proposed in the Alternative View was appropriate. Some respondents argued that the proposed measurement objective was too aligned to current value measures. However, the IPSASB formed a view that the reference to "cost of services" provides a sufficient link to historical cost, because the cost of services can be determined using both historical cost and current value measures. The IPSASB therefore adopted the following measurement objective with only a minor modification from that proposed in the Alternative View:

To select those measurement bases that most fairly reflect the cost of services, operational capacity, and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

BC7.10 The IPSASB also noted that the disadvantages of using different measurement bases may be minimized by:

- Selecting different measurement bases only where this is justified by economic circumstances, thereby ensuring that assets and liabilities are reported on the same basis where circumstances are similar; and

[11] Such concepts of capital include invested money capital, current cash equivalents and physical capital.

- Requiring transparent presentation and disclosure to ensure that the measurement bases used, and the amounts reported on each basis are clear.

BC7.11 The IPSASB reaffirmed the need for a measurement objective and the existing wording during the Limited-scope Update project.

Initial Measurement

BC7.12 Some respondents to ED 76 expressed a view that the IPSASB had not distinguished measurement at recognition (initial measurement) from measurement subsequent to recognition (subsequent measurement). The IPSASB therefore decided to insert a sub-section dealing with initial measurement. This clarifies that initial measurement is at transaction price unless no transaction price data are available or there is another more representationally faithful measurement basis. In such a case, a deemed cost is used on which requirements and guidance are provided at the standards level.

BC7.13 Historical cost is the transaction price plus transaction costs for an asset or minus transaction costs for a liability. Transaction costs can be significant, and their omission might impair the usefulness of the financial statements. The IPSASB considered the correct approach for transaction costs for a liability. The IPSASB agreed that deducting transaction costs from the transaction price is appropriate as it reflects the economics of the liability. For example, an entity borrows 1,000,000 CU of which transaction costs amount to 100,000 CU. The historical cost is 900,000 CU. This is because immediately after receiving the 1,000,000 CU, the transaction costs of 100,000 CU are repaid to the counterparty, leaving the entity with 900,000 CU. The transaction costs of 100,000 CU are included in the interest expense over the term of the instrument as the carrying amount of 900,000 CU is accreted to 1,000,000 CU on the settlement date.

The Subsequent Measurement Framework

BC7.14 Chapter 7 of the 2014 Conceptual Framework did not explicitly identify measurement levels. The IASB's 2018 *Conceptual Framework for Financial Reporting* distinguishes three measurement levels:

(a) Measures or Categories of Measurement Bases (the latter term is used in the IASB's Basis for Conclusions);

(b) Measurement Bases; and

(c) Measurement Techniques.

BC7.15 The IPSASB considered that distinguishing different levels, and building on the IASB's approach, would provide an analytical framework to inform the development of measurement requirements and guidance. As the distinction between measures and measurement bases might be ambiguous, the following three levels were adopted for ED 76 and ED 77, *Measurement*:

(a) **Measurement Models:** broad approaches for measuring assets and liabilities for inclusion in the financial statements.

(b) **Measurement Bases:** specific ways of measuring assets and liabilities that provide the information that best meets the qualitative characteristics under the selected measurement model.

(c) **Measurement Techniques:** methods to estimate the amount at which an asset or liability is measured under the selected measurement basis.

BC7.16 In identifying measurement models and measurement bases, the IPSASB reaffirmed the view in the 2014 Conceptual Framework that there is not a single measurement basis that best meets the measurement objective. Consistent with this view, the IPSASB concluded there is not one measurement model that best meets the measurement objective. Consequently, the IPSASB identified the historical cost model as one of the two models. and retained historical cost as a measurement basis for both assets and liabilities.

BC7.17 Some respondents to ED 76 challenged the term "Measurement Hierarchy" because hierarchy implies a prioritization of measurement models, measurement bases and measurement techniques. It was not the IPSASB's intention to imply such a prioritization. The IPSASB therefore decided to rename the "Measurement Hierarchy" as the "Subsequent Measurement Framework". This change also emphasized that the Conceptual Framework refers to subsequent measurement rather than initial measurement.

BC7.18 The IPSASB considered whether to identify and discuss measurement techniques in the Conceptual Framework. The IPSASB concluded that a detailed analysis of measurement techniques is not appropriate for the Conceptual Framework and that guidance should be provided at the standards level. Therefore, in its discussion of the Subsequent Measurement Framework, the Conceptual Framework explains that measurement techniques are needed to operationalize current value measurement bases. However, the Conceptual Framework does not identify or analyze specific techniques. Guidance on measurement techniques is provided at the standards level.

Entity-Specific and Non-Entity-Specific Values, Observability in a Market, Entry and Exit Values

BC7.19 The 2014 Conceptual Framework classified measurement bases as: (i) entity-specific or non- entity-specific, (ii) whether they provide information that is observable in an orderly market; and (iii) whether they provide entry or exit values. The IPSASB considered that the distinction between entity-specific and non-entity-specific measurement bases and the relationship with the measurement objective and qualitative characteristics is meaningful. It indicates whether measurement bases reflect the expectations of market participants and impacts the selection of a measurement basis.

BC7.20 The IPSASB decided that the characteristic of observability in a market is relevant to the selection of a measurement technique once a measurement basis has been selected, rather than directly to the measurement basis itself. Consistent with the conclusion in paragraph BC7.18 that detailed guidance on measurement techniques is more appropriately addressed at the standards level, the IPSASB decided not to retain a discussion of observability in a market in the Conceptual Framework, but to refer to the "availability of observable data" as an example of a factor in the selection of a measurement technique.

BC7.21 For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. For liabilities, entry values usually reflect the amount at which a liability is incurred and exit values reflect the amount required to fulfill or transfer a liability. In rarer cases, entry values reflect the amount at which a liability is assumed and exit values reflect the amount to release an entity from an obligation.

BC7.22 IPSASB is of the view that the key factor in the selection of a current value measurement basis is the measurement objective; in particular, whether an asset is primarily held for its operational or financial capacity and the characteristics of a liability. The IPSASB concluded that the distinction between entry and exit values is useful in deciding whether a measure includes transaction costs, and, if so, whether on the acquisition or sale of an asset or incurrence or settlement of a liability. The Conceptual Framework therefore includes a high-level discussion on entry and exit values but does not provide a tabular classification of specific measurement bases as entry or exit.

Approach to Identifying Measurement Bases Addressed in the Conceptual Framework

BC7.23 In revising Chapter 7 the IPSASB identified two approaches to the identification of, and guidance on, measurement bases. The first approach would provide guidance on a large number of measurement bases regardless of whether they are used in current standards-level literature or whether it is likely that that they will be used in the development of future standards. The second approach would focus on the most commonly used measurement bases.

BC7.24 In ED 76 the IPSASB decided to adopt the second approach as it considered that this approach is more helpful for the IPSASB in its standards development and for preparers of financial statements in determining accounting policies for transactions and events for which there are no standards-level requirements and guidance. The IPSASB reconsidered this approach in the light of the views by some respondents to ED 76 who advocated the broader approach. The IPSASB acknowledged the case for providing guidance on a more comprehensive range of measurement bases but concluded that the benefits of a more concise approach outweighed any disadvantages. In particular, the IPSASB concluded that the inclusion of measurement bases that might be rarely, and in some cases, never used at the standards level could be confusing to users. The IPSASB also acknowledged that the fact that a measurement basis is not discussed in Chapter 7 does not preclude its adoption at the standards level. In such cases the reason for adoption of such a measurement basis will be explained in the Basis for Conclusions of the standard.

Measurement Bases for Assets

Historical Cost

BC7.25 Historical cost is a measurement basis applied in many jurisdictions. Many respondents to the Consultation Paper and the Exposure Draft that preceded the 2014 version of the Conceptual Framework advocated the continued widespread use of historical cost as a measurement basis, mostly in combination with other measurement bases. They supported this view by reference to the accountability objective and the understandability and verifiability of historical cost information. They also noted that, because historical cost is widely adopted in combination with other measurement bases, its continued use avoids the implementation costs that would arise if a future revision of a current standard that requires or permits historical cost were to require the use of a different measurement basis.

BC7.26 Some respondents considered that historical cost information provides a highly relevant basis for the reporting of the cost of services because the link between historical cost and the transactions actually undertaken by the entity is important for an assessment of accountability. In particular, historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, or how the resources that they have otherwise contributed in a reporting period have been used.

BC7.27 The IPSASB agreed that, in many contexts, it is relevant to provide information on the transactions actually carried out by the entity and accepted that users are interested in the cost of services based on actual transactions. Historical cost provides information on how much services actually cost in the reporting period, rather than how much they will cost in the future; pricing decisions based on historical cost information may promote fairness to consumers of services.

BC7.28 The IPSASB also acknowledged the views of those who consider that the use of historical cost facilitates a comparison of actual financial results with the approved budget. The IPSASB accepts that budgets may often be prepared on a historical cost basis and that, where this is the case, historical cost enhances comparison against budget.

BC7.29 The IPSASB also acknowledged a contrary view: that assessing and reporting the cost of providing services in terms of the value that has been sacrificed in order to provide those services provides useful information for both accountability and decision-making purposes. As historical cost does not reflect the value of assets at the time they are consumed, it does not provide information on that value in circumstances where the effect of price changes is significant. The IPSASB concluded that it is important that the Conceptual Framework responds to both these contrasting perspectives.

BC7.30 In finalizing the revised Chapter 7 the IPSASB reviewed the wording of the definition of historical cost. The IPSASB decided that the definition could be simplified and clarified by:

(a) Adding "construct" to "acquire and develop" and "construction" to "acquisition and development", as construction is a way of creating an asset;

(b) Removing the phrase "which is the cash or cash equivalents, or other consideration given" because it is unnecessary; and

(c) Including "transaction costs" as a component of the definition and providing a description of "transaction costs". This is because the IPSASB was persuaded by the argument that, for many transactions, transaction costs are a significant component of the amount of initial measurement.

Current Operational Value

BC7.31 The 2014 Conceptual Framework included replacement cost as a current value measurement basis, envisaging that it would be appropriate for specialized assets. As noted in paragraph BC7.39 the IPSASB adopted the IASB's exit-based definition of fair value in the updated Conceptual Framework. The cost approach, a measurement technique for fair value in IFRS 13, *Fair Value Measurement*, has some similarities to replacement cost. These inter-related factors necessitated the development of a measurement basis that can be applied to assets held primarily for operational capacity.

BC7.32 The IASB's 2018 Conceptual Framework included current cost as a measurement basis for both assets and liabilities. The IPSASB considered whether current cost should be adopted as a current value measurement basis for assets that are primarily held for operational capacity (see paragraph BC7.100 for a discussion of current cost for liabilities). The IPSASB formed a view that a measurement basis similar to current cost is relevant in a public sector context, potentially for specialized and non-specialized assets held for operational capacity. However, rather than the cost of an equivalent asset in the IASB's definition of current cost, the IPSASB formed a view such a measurement basis should reflect an asset's value in its existing use. The IPSASB decided to use the term 'current operational value' for this measurement basis.

BC7.33 Current operational value was developed for assets primarily held for their operational capacity. For non-specialized assets, it can be supported by market-based measurement techniques with similarities to market value. For more specialized assets, measurement techniques to determine the value of the asset may be applied. ED 76 therefore proposed current operational value as a measurement basis for assets primarily held for operational capacity with the following definition:

The value of an asset used to achieve the entity's service delivery objectives at the measurement date.

BC7.34 ED 76 also included an alternative view (AV). The main points of the AV were that:

- The definition was unclear mainly because of the ambiguity of the word 'value';
- The lack of clarity in the definition risked not achieving the qualitative characteristics of financial reporting; and
- The definition should have focused on the cost of replacing an asset used for its service potential.

BC7.35 The AV proposed the following definition:

The cost to replace the service potential embodied in an asset at the measurement date.

BC7.36 Most respondents to ED 76 supported the view that fair value is inappropriate for assets that are primarily held for their operational capacity and therefore that a public sector specific current value for assets should be developed. Some respondents shared the view of the AV that the proposed definition was unclear. Other respondents considered that the rationale for current operational value should be clearer.

BC7.37 The IPSASB responded to these points by adopting a definition which focuses on both an asset and the service potential of an asset:

The amount the entity would pay for the remaining service potential of an asset at the measurement date.

BC7.38 Guidance clarifies the assumptions that underpin current operational value. These assumptions are stated in paragraph 7.38. They indicate that measurement under current operational value estimates the amount an entity would pay for the remaining service potential of an asset in the least costly manner. Current operational value is based on the asset in its existing use and in its existing location.

Fair Value

BC7.39 Shortly before the 2014 Conceptual Framework was finalized the IASB approved IFRS 13. IFRS 13 adopted an explicitly exit-based definition of fair value. This differed from the definition of fair value in the IPSASB's literature, which was aligned with the pre-IFRS 13 definition of fair value. The IPSASB decided to rename its fair value definition as "market value". The aim was to avoid two global standard setters using the term "fair value" with different definitions in future standards development. Unlike the revised IASB definition of fair value, market value could be appropriate for non-specialized physical assets held for operational capacity as well as assets held for financial capacity. Since 2014, the IPSASB's standards-level work, especially that on financial instruments, had led the IPSASB to conclude that a non-entity-specific current value measurement basis is necessary for both assets and liabilities. This view was reflected in IPSAS 41, *Financial Instruments*, and in the illustrative exposure draft in Consultation Paper, *Measurement*.

BC7.40 Therefore, the updated measurement chapter therefore includes fair value for both assets and liabilities, based on the IASB's exit-based definition of fair value. Because of its exit-based nature and the assumptions that underpin it, the IPSASB concluded that fair value is inappropriate for assets primarily held for their operational capacity. The IPSASB is aware that fair value has been adopted in some jurisdictions as a current value measurement for such assets and has been adapted for these assets by, for example, reinterpreting the "highest and best use" principle. The IPSASB concluded that such adaptations would mean losing consistency with the IASB's guidance.

Measurement Bases and Approaches for Assets not included in the Updated Conceptual Framework

BC7.41 The following measurement bases and approaches for assets in the 2014 Conceptual Framework have not been included in the updated version:

- Market value;
- Replacement cost; and
- Net selling price.

BC7.42 Value in use was included as a measurement basis in the 2014 Conceptual Framework. It has not been included as a measurement basis in the updated Conceptual Framework, which includes a general discussion of value in use.

BC7.43 The following measurement bases were considered for inclusion in the 2014 Conceptual Framework but rejected:

- Symbolic value;
- Synergistic value; and
- Equitable value.

BC7.44 The IPSASB did not further consider these measurement bases in the Limited-scope Update project to revise Chapter 7.

BC7.45 In developing the 2014 Conceptual Framework the IPSASB also considered and rejected the deprival value model, which is an approach to select a measurement basis, rather than a measurement basis in its own right.

Market Value

BC7.46 Market value for assets was defined in the 2014 Conceptual Framework as:

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

BC7.47 In light of the decision to include fair value and current operational value as measurement bases under the current value model, the IPSASB considered whether it was necessary to retain market value as a measurement basis for assets. The IPSASB considered that fair value is the current value measurement basis that best meets the measurement objective where assets are held for financial capacity and for determining the amount of a liability that can be transferred to a third party under current market conditions. Current operational value is the current value measurement basis that best meets the measurement objective where assets are held for operational capacity, because it does not include a "highest and best use" market-based assumption, and, as an entity-specific measurement basis, it does not reflect the expectations of market participants. The IPSASB therefore concluded that it was not necessary to retain market value as a measurement basis. Market-based techniques can be used to operationalize the fair value and current operational value measurement bases. Guidance on these techniques is provided at the standards level.

BC7.48 The large majority of respondents to ED 76 supported the IPSASB's reasons for the non-retention of market value. The IPSASB confirmed that market value should not be included in the revised Chapter 7.

Replacement Cost

BC7.49 Replacement cost was defined in the 2014 Conceptual Framework, as:

The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.

BC7.50 In light of the decision to include current operational value as the most appropriate current value measurement basis for operational assets, the IPSASB considered whether it was necessary to retain replacement cost as a measurement basis. The IPSASB considered that the rationale for including replacement cost as a measurement basis in the 2014 Conceptual Framework was convincing, in particular that an appropriate measurement basis for specialized assets should provide information on the cost of the service potential that is attributable to the asset. As noted above, current operational value is a measurement basis that can be applied to both specialized and non-specialized assets. Measurement techniques can be selected appropriate to the nature of the asset.

BC7.51 Most respondents to ED 76 supported the non-retention of replacement cost. Those who opposed or expressed reservations about the change considered that it had been insufficiently explained or that current operational value had not been adequately developed in ED 76. Both of these reservations were addressed in the finalized Chapter 7.

BC7.52 The IPSASB acknowledged these points, which were taken into account in the development and finalization of current operational value (see paragraphs BC7.31–BC 7.38). There was also a view that fair value is appropriate for non-operational assets. As noted in paragraph BC7.40 the IPSASB confirmed its view that fair value is inappropriate for assets primarily held for their operational capacity and that there should be a public sector specific current value measurement basis for such assets.

BC7.53 Some of the respondents who supported the approach proposed in ED 76, explicitly acknowledged the IPSASB's view that replacement cost would duplicate the new measurement basis and its retention would be confusing. At the standards level, the cost approach, which reflects aspects of replacement cost, is also being brought into both current operational value and fair value as a measurement technique at the standards level. The IPSASB therefore confirmed its view that replacement cost should not be included in the updated Chapter 7.

Net Selling Price

BC7.54 Net selling price is an entity-specific measurement basis that was defined in the 2014 Conceptual Framework as:

The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.

BC7.55 In its project on non-current assets and discontinued operations, the IPSASB considered whether net selling price should be included as an alternative measure to fair value less costs to sell in determining the recoverable amount of assets held for sale where a sale is on negotiated rather than market terms. The IPSASB rejected inclusion of net selling price, largely on accountability grounds, concluding that fair value is more appropriate for the determination of the recoverable amount of an asset, as it generally meets the qualitative characteristics of financial reporting better than net selling price.

BC7.56 The IPSASB considered the case for an entity-specific, current value measurement basis for assets, as an alternative to fair value where there is not an orderly market, such as a distressed or negotiated sale. In some jurisdictions events such as financial crises and pandemics have increased the likelihood of such sales. Sale prices will be affected by the impact of such events on general market conditions and therefore reflected in fair value measurements. Aside from general price effects, when sale price is estimated at below fair value it is important that the impact of such a decision on an entity's financial position and financial performance is made fully transparent by disclosing the extent of the losses likely to be made on sale. This can be achieved by showing the difference between an asset's fair value and the sale price. The IPSASB therefore concluded that, in light of the limited information provided by net selling price, its retention in the IPSASB Conceptual Framework was unnecessary.

BC7.57 Following comments from respondents to ED 76, the IPSASB further analyzed the case for and against retention of net selling price. The IPSASB noted that:

- Net selling price is not defined in the IASB's 2018 Conceptual Framework.
- Net realizable value is used in IPSAS 12, Inventories. However, despite superficially similar terminology, net realizable value, which is not included in the IASB's 2018 Conceptual Framework, is much closer to the IASB's current definition of fair value than net selling price.

BC7.58 The IPSASB concluded that the case for retention of net selling price is not persuasive and confirmed that it should not be included in a revised Chapter 7.

Value in Use

BC7.59 Value in use was defined in the 2014 Conceptual Framework as:

The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

BC7.60 The IPSASB considered whether to retain value in use as a current value measurement basis for assets in the Conceptual Framework.

BC7.61 The IPSASB noted that the definition of value in use in the 2014 Conceptual Framework was not consistent with that in the IASB's Conceptual Framework, because it is not limited to the cash-generating context and includes a reference to "service potential". Since approval of the Conceptual Framework the IPSASB has placed increased emphasis on the consistent use of terminology and definitions by global standard setters.

BC7.62 The IPSASB acknowledged the importance of value in use in assessments of impairment losses (including reversal of impairment losses or impairment gains). The IPSASB also noted that value is use requires complex and subjective projections of cash flows generated by an asset, or of the service potential provided by an asset. Complexity increases where assets generate cash flows in combination with other assets.

BC7.63 The IPSASB further acknowledged that some assets both generate cash flows and are used in the delivery of services. In such circumstances the IPSASB reaffirmed that, for financial reporting purposes, preparers of financial statements need to make a professional judgment of the primary purpose for which an asset is held. Under the current value model, where assets are primarily held for operational capacity, current operational value is applied; where assets are primarily held for financial capacity fair value is applied. The continued applicability of value in use is therefore likely to be limited to impairment.

BC7.64 In light of the above factors, the IPSASB decided to replace the definition of value in use with a limited discussion in the proposed updated Chapter 7 in ED 76.

BC7.65 Most respondents to ED 76 supported the IPSASB's proposed revised approach. Respondents who opposed the IPSASB's proposal to reduce the number of measurement bases discussed in the Conceptual Framework (see paragraphs BC7.23 and BC7.24) advocated retention on the grounds that value in use should be available to the IPSASB and preparers of financial statements for transactions and events apart from impairment. No examples of such circumstances were provided.

BC7.66 Conversely, it was suggested that value in use should not be addressed in the Conceptual Framework because its applicability is limited to impairment and that guidance should be limited to the standards level.

BC7.67 The IPSASB concluded that, while its wider future application cannot be ruled out, value in use's relevance is likely to be limited to impairment. The IPSASB also concluded that the importance of value in use to impairment justifies the inclusion of guidance in the Conceptual Framework. The IPSASB therefore decided to retain the approach in ED 76.

BC7.68 Some respondents suggested that the IPSASB should clarify the differences between value in use and current operational value. The IPSASB noted that value in use is an exit value and therefore includes the proceeds of sale as a component of the measure. Current operational value is an entry value and therefore does not include the proceeds of sale. As the public sector entities for which the IPSASB develops standards hold most assets for service delivery this analysis reinforced the IPSASB's view that these assets are likely to be measured at current operational value.

Symbolic Values

BC7.69 In some jurisdictions, certain assets are recognized on the statement of financial position at symbolic values, typically one unit of the presentation currency. This treatment is adopted in order to recognize assets on the face of the statement of financial position when it is difficult to obtain a valuation. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between asset management and accounting processes.

BC7.70 The IPSASB acknowledged that such an approach is intended to provide useful information. However, in the development of the 2014 Conceptual Framework, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity, or the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of whether the item meets the definition of an asset and recognition criteria in Chapter 5, *Elements in Financial Statements,* and Chapter 6, *Recognition in Financial Statements*. The IPSASB did not further consider the issue of symbolic values in the Limited Scope Update project.

Equitable Value and Synergistic Value

BC7.71 The IPSASB considers that the development of conceptual and standards-level projects evaluates the requirements and guidance in International Valuation Standards (IVS) and Government Finance Statistics. In its Limited Scope Update project, the IPSASB evaluated two concepts in IVS as potential measurement bases in the Conceptual Framework-equitable value and synergistic value.

BC7.72 IVS defines equitable value as the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

BC7.73 IVS defines synergistic value as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.

BC7.74 Equitable value has similarities to net selling price and synergistic value relates to unit of account. The IPSASB considered net selling price in the Limited Scope Update project and decided not to retain this measurement basis (see above paragraphs BC7.54–BC7.58). The IPSASB therefore concluded that including equitable value and synergistic value as specific measurement bases in the Conceptual Framework was unnecessary. The IPSASB did not further consider equitable value and synergistic value in the Limited Scope Update project.

Deprival Value Model

BC7.75 The 2011 Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, discussed the deprival value model as a rationale for selecting a current value measurement basis. Some respondents expressed reservations-in particular that the model would be costly and impose a disproportionate burden on preparers of financial statements to have to consider a number of possible measurement bases for each asset that is reported. A number of respondents also considered that it is overly complex. A view was also expressed that the deprival value model unduly exaggerates the qualitative characteristic of relevance and neglects the other qualitative characteristics.

BC7.76 Although the IPSASB recognized that the deprival value model has been adopted successfully in some jurisdictions, the IPSASB acknowledged such reservations in whole or part. The IPSASB therefore included the deprival value model in the 2013 Conceptual Framework Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements*. That Exposure Draft proposed the deprival value model as an optional method of choosing between replacement cost, net selling price, and value in use where it had been decided to use a current measurement basis, but the appropriate basis could not be identified by reference to the objectives of financial reporting and the qualitative characteristics.

BC7.77 While a minority of respondents to the 2013 Conceptual Framework Exposure Draft were highly supportive of the deprival value model, many respondents continued to express reservations about the model's complexity. The IPSASB also acknowledged a technical ambiguity in the deprival value model-if net selling price is higher than replacement cost a development opportunity might be indicated and that users should be provided with this information, which the deprival value model would not do. Due to these factors the IPSASB decided not to include the deprival value model in the Conceptual Framework. The IPSASB did not further consider the deprival value model in the Limited-scope Update project.

Measurement Basis for Liabilities in the Updated Conceptual Framework

Fair Value

BC7.78 Paragraphs BC7.39 and BC7.40 discuss the inclusion of fair value for assets in the updated Conceptual Framework. Consistent with the analysis for assets the IPSASB decided that fair value is an appropriate measurement basis for many liabilities depending on their characteristics. The updated measurement chapter therefore includes fair value as a measurement basis for liabilities.

Cost of Fulfillment

BC7.79 The 2014 Conceptual Framework defined cost of fulfillment as:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

BC7.80 In its 2018 Framework the IASB included fulfilment[12] value defined as:

The present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.

BC7.81 In light of this development, the IPSASB considered whether to (a) adopt the term 'fulfillment value' rather than cost of fulfillment while retaining the original definition of cost of fulfillment (b) adopt the term 'fulfillment value' and the definition in the IASB Framework; or (c) follow another approach.

BC7.82 A number of respondents to the IPSASB's 2019 Consultation Paper, Measurement, pointed out that fulfillment value reflects a risk premium, whereas cost of fulfillment is silent on risk premia. A risk premium, which is also known as a risk margin or risk adjustment, is the price for bearing the uncertainty inherent in the cash flows. The IPSASB concluded that using the term 'fulfillment value' with a definition different to that of the IASB was inappropriate. The IPSASB also decided that the inclusion of a risk premium should be determined at the standards level.

BC7.83 The IPSASB concluded that the existing definition of cost of fulfillment should be retained in ED 76. The IPSASB acknowledged that the term itself is similar to fulfillment value but concluded that provided it is clear that cost of fulfillment does not imply inclusion of a risk premium the term should be retained with its existing definition rather than adopting a new term such as 'cost of settlement'.

BC7.84 The IPSASB also considered whether the definition should retain the assumption that the obligations represented by the liability are fulfilled in the least costly manner. The IPSASB acknowledged that there may be circumstances where, for transparent public policy reasons, liabilities may not be fulfilled in the least costly manner. However, the IPSASB took the view that, from an accountability perspective, the assumption should be retained and concluded that the definition of cost of fulfillment should not be modified. It is possible that there may be cases where a reporting entity decides to fulfill an obligation in a manner that is not the least costly. In such circumstances it is important that for accountability purposes this is disclosed.

BC7.85 There was strong support for cost of fulfillment by respondents to ED 76. Consultation on ED 76 did not identify issues previously unconsidered by the IPSASB. The IPSASB therefore confirmed the retention of cost of fulfillment.

Measurement Bases for Liabilities not included in Updated Conceptual Framework

BC7.86 The following measurement bases and approaches for liabilities in the 2014 version of the Conceptual Framework have not been included in the updated version:

[12] The IPSASB uses the word 'fulfillment'. The IASB uses the word 'fulfilment'. This reflects usage respectively in North America and the United Kingdom. Hereafter the word 'fulfillment' is used.

- Market value;
- Assumption price; and
- Cost of release.

Market Value

BC7.87 Market value for liabilities was defined in the 2014 version of the Conceptual Framework as:

The amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

BC7.88 In light of the inclusion of fair value the IPSASB concluded that the retention of market value was unnecessary, as it would overlap with fair value and its inclusion would be confusing.

BC7.89 Following consultation on ED 76 the IPSASB confirmed that there was no case for retaining market value.

Assumption price

BC7.90 Assumption price was defined in the 2014 Conceptual Framework as:

The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

BC7.91 Assumption price is an entity-specific measurement basis included in the 2014 Conceptual Framework. It has not been used in the IPSASB literature at the standards level as of 2021. It has some similarities to current cost for liabilities, as defined by the IASB in its 2018 Conceptual Framework, but refers to a liability of a counterparty, rather than a liability of the reporting entity.

BC7.92 The IPSASB assessed the case for retention of assumption price. The inclusion of assumption price (along with cost of release discussed in paragraphs BC7.96–BC7.100) was on the grounds that there may be limited circumstances where it might meet the measurement objective, for example in the case that a government takes on liabilities at concessionary rates.

BC7.93 The IPSASB concluded that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited, albeit potentially material. In such circumstances fair value could be used as the measurement basis. Therefore, the IPSASB concluded that there is not a strong case for retention of assumption price.

BC7.94 Following comments from respondents to ED 76 the IPSASB reconsidered the case for and against the retention of assumption price. The IPSASB noted that:

- Neither the IASB's 2010 Conceptual Framework nor the 2018 Conceptual Framework defined or described assumption price.
- In those limited cases where there is an "assumption price" it would be the same as historical cost. Following assessment of a day one gain or loss, it would then be superseded by cost of fulfillment in the year-end financial statements.

BC7.95 The IPSASB therefore confirmed that assumption price should not be retained in the Conceptual Framework.

Cost of Release

BC7.96 Cost of release was defined in the 2014 version of the Conceptual Framework as the amount of an immediate exit from an obligation-either the amount a creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Cost of release is entity-specific and does not assume an orderly market. At the standards level the measurement requirements and guidance in IPSAS 19, Provisions, *Contingent Liabilities and Contingent Assets,* include a grey letter reference to 'transfer(ing) an obligation at the reporting date' (IPSAS 19.45) which supplements the black letter reference to 'the best estimate of the expenditure required to settle the present obligation at the reporting date' in IPSAS 19.44. This reference in IPSAS 19.45 is consistent with cost of release.

BC7.97 The IPSASB noted that the IASB had concluded that it was unnecessary to include cost of release in its 2018 Conceptual Framework because it is relatively unusual for entities to obtain release from liabilities, rather than fulfilling them.

BC7.98 The 2014 Conceptual Framework justified the inclusion of cost of release on the grounds that there may be limited circumstances where it might meet the measurement objective. The IPSASB concluded that standards development since 2014 has not identified sufficient examples of circumstances where cost of release is appropriate to justify retention. The IPSASB therefore decided not to include cost of release in the updated Chapter 7 of the Conceptual Framework.

BC7.99 Following comments from respondents to ED 76 the IPSASB reconsidered the case for and against the retention of cost of release. The IPSASB noted that:

- The IASB considered cost of release in the development of the Measurement chapter of the 2018 Conceptual Framework but did not include it for the reasons identified above. The IPSASB considered that instances of entities obtaining release from liabilities, rather than fulfilling them, are similarly rare in the public sector.
- Cost of release gives rise to accountability and audit/assurance issues related to the qualitative characteristic of verifiability. Negotiations with a counterparty or third party are likely to be sensitive and confidential. Unless there is a binding arrangement with a counterparty or third party, the basis for determining cost of release may be questionable. From an accountability perspective cost of release gives rise to public interest considerations, as it may be of questionable propriety for public sector entities to settle obligations other than by fulfilling them.
- The responses to the Consultation Paper, Measurement, issued in April 2019 had indicated little support for including guidance on cost of release.

BC7.100 The IPSASB therefore confirmed that cost of release should not be retained in the Conceptual Framework.

Current Cost

BC7.101 Paragraph BC7.32 discusses current cost as defined by the IASB for assets in its Conceptual Framework. Noting that in the IASB's Conceptual Framework the definition of current cost includes liabilities as well as assets, the IPSASB considered whether to include current cost as a measurement basis for liabilities. Current cost for liabilities is the consideration that would be received for incurring or taking on an equivalent liability at the measurement date. The IPSASB acknowledged that such a measurement basis might provide useful information for managerial purposes but considered that its practical application for financial reporting is limited, as cost of fulfillment better meets the qualitative characteristics of financial reporting The IPSASB therefore concluded that current cost for liabilities should not be included in the Conceptual Framework.

Own Credit Risk

BC7.102 The Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, sought the views of respondents on the treatment of an entity's own credit risk and changes in value attributable to changes in an entity's own credit risk.

BC7.103 The majority of respondents who commented on this issue considered that it is more appropriate to deal with it at the standards level rather than in the Conceptual Framework. The IPSASB concurred in this view and therefore did not include a discussion of own credit risk in the Conceptual Framework. The IPSASB noted that where a market-based value is used to measure a liability it is necessary to consider the treatment of the entity's own credit risk. The IPSASB did not redeliberate this issue in the Limited-scope Update.

CHAPTER 8: PRESENTATION IN GENERAL PURPOSE FINANCIAL REPORTS

CONTENTS

Introduction

8.1 This Chapter sets out the concepts applicable to the presentation of information in GPFRs, including financial statements of governments and other public sector entities (entities).

8.2 Presentation is linked to Chapters 1 to 4—the objectives of financial reporting, users' needs, the qualitative characteristics, constraints on information included in GPFRs and the reporting entity all influence presentation decisions. For information reported in the financial statements, presentation is also linked to the definitions of the elements, recognition criteria and measurement bases identified in Chapters 5 to 7-—for example:

- The definition of the elements affect the items that can be presented in the financial statements;
- Application of the recognition criteria affects the location of information; and
- The selection of measurement bases impacts the information presented on measurement methodologies.

Language in which Financial Statement and Other GPFRs are Issued

8.3 The language (or languages) in which financial statements and other GPFRs are issued supports achievement of the objectives of financial reporting and the qualitative characteristics. All translated versions need to be faithful to the original language version. The translated version is made available to meet the needs of users with reference to:

- Legal requirements in the entity's jurisdiction; and
- Translation costs and benefits.

Presentation

8.4 Presentation is the selection, location and organization of information that is reported in the GPFRs.

8.5 Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organization of information are made in response to the needs of users for information about economic or other phenomena.

8.6 Chapter 1 explains that GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. In addition to the financial statements, GPFRs provide information relevant to, for example, assessments of an entity's service performance and the sustainability of its finances. The objectives of financial reporting, applied to the area covered by a particular report, guide presentation decisions for that report.

8.7 Presentation decisions may:

- Result in the development of a new GPFR, the movement of information between reports, or the amalgamation of existing reports; or
- Be detailed decisions on information selection, location and organization within a GPFR.

Presentation Decisions are Interlinked

8.8 Decisions on information selection, location and organization are interlinked and, in practice, are likely to be considered together. The amount or type of information selected could have implications on whether it is included in a separate report or organized into tables or separate schedules. The following three sections separately focus on each presentation decision.

Information Selection

8.9 Decisions on information selection address what information is reported:

- In the financial statements; and
- In GPFRs outside the financial statements (other GPFRs).

8.10 As Chapter 2, *Objectives and Users of General Purpose Financial Reporting*, explains, the objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes. Chapter 2 describes the types of information that users need to meet the objectives of financial reporting. That description guides decisions on whether particular types of reports are needed. This Chapter focuses on the selection of information to be presented in GPFRs, including financial statements and other reports.

Information Selection—Nature of Information

Nature of Information in Financial Statements

8.11 Users' information needs identified in Chapter 2 underpin information selection for the financial statements. Those needs include information about the financial position, financial performance and cash flows of an entity in order to:

- Enable users to identify the resources of the entity and claims on those resources at the reporting date;
- Inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives; and
- Inform assessments of financial performance and the entity's liquidity and solvency.

8.12 The financial statements may also provide information that assists users in assessing the extent to which:

- An entity has met its financial objectives;
- Revenues, expenses, cash flows and financial results of the entity comply with approved budgets; and
- An entity has adhered to relevant legislation or other authority governing the raising and use of public monies.

8.13 The financial statements do not report comprehensively on an entity's service performance. However information in the financial statements may provide information relevant to the financial aspects of service performance such as information about:

- Revenue, expenses and cash flows related to services; and
- The assets and liabilities that inform users' evaluations of, for example, an entity's operational capacity or financial risks that could impact on service provision.

8.14 Other reports in GPFRs present information additional to the financial statements. Such information could, for example, include:

- Information on the sustainability of an entity's public finances;
- Financial statement discussion and analysis; or
- Service performance information.

Information Selected for Display or Disclosure

8.15 Information is selected for display or disclosure in GPFRs. Information selected for display communicates key messages in a GPFR, while information selected for disclosure makes displayed information more useful by providing detail that will help users to understand the displayed information. Disclosure is not a substitute for display.

8.16 Repetition of information in a GPFR needs to generally be avoided. However, the same information may be both displayed and disclosed. For example, a total displayed on the face of the financial statements may be repeated in the notes, where the notes provide a disaggregation of the displayed total. Similarly the same information may be presented in different GPFRs in order to address their different aims.

Information Selected for Display

8.17 Every GPFR contains key messages that are communicated, so every GPFR contains displayed information. Displayed information is kept to a concise, understandable level, so that users can focus on the key messages presented and not be distracted by detail that could otherwise obscure those messages. Displayed information is presented prominently, using appropriate presentation techniques such as clear labeling, borders, tables and graphs.

8.18 The items displayed on the face of the financial statements provide information about such matters as the reporting entity's financial position, financial performance and cash flows.

8.19 Assessment of whether an item satisfies the recognition criteria is one of the key mechanisms in determining whether information is displayed on the face of the statement of financial position or statement of financial performance and/or disclosed either in the notes or elsewhere in the GPFRs. In other cases, for example a statement of cash flows, displayed information will also support achievement of the objectives of financial reporting.

8.20 Developing requirements for the display of line items and totals involves balancing the standardization of displayed information, which facilitates understandability, with information that is tailored for entity-specific factors. The aim of both standardized display requirements and entity-specific information is to ensure that information necessary to meet the objectives of financial reporting is available for all entities, while allowing information to be displayed in a manner that reflects the nature and operations of specific entities.

Information Selected for Disclosure

8.21 Disclosed information is likely to include:

- The basis for the displayed information, such as applicable policies or methodologies;
- Disaggregations of displayed information; and
- Items that share some but not all of the aspects of displayed information—for example disclosures on items that meet some, but not all, of the characteristics of the definition of an element[13] or disclosures on items that meet the definition of an element, but not the recognition criterion.

8.22 The level of detail provided by disclosed information contributes to achievement of the objectives of financial reporting, without being excessive. Disclosed information, like displayed information, is necessary for achievement of the objectives of financial reporting.

[13] Chapter 5, *Elements in Financial Statements*, explains that other resources and other obligations that do not meet the definition of elements may be recognized in order to contribute to the objectives of financial reporting.

8.23 Information disclosed in the notes to the financial statements:

- Is necessary to a user's understanding of the financial statements;
- Provides information that presents the financial statements in the context of the entity and its operating environment; and
- Generally will have a clear and demonstrable relationship to information displayed on the face of the financial statement(s) to which it pertains.

8.24 Information disclosed in the notes may also include:

- Entity-related factors that could influence judgments about reported information (for example, information about related parties and controlled entities or interests in other entities);
- The basis for what is displayed (for example, information on accounting policies and measurement, including measurement methods and measurement uncertainties where applicable);
- Disaggregations of amounts displayed on the face of the statements (for example, a break-down of property, plant and equipment into different classes);
- Items that do not meet the definition of an element or the recognition criteria, but are important to an understanding of the entity's finances and ability to deliver services—for example, information about events and conditions, that might affect future cash flows or service potential, including their natures, possible effects on cash flows or service potential, probabilities of occurrence, and sensitivities to changes in conditions; and
- Information that may explain underlying trends affecting displayed totals.

Principles Applicable to Information Selection

8.25 Decisions about what information needs to be displayed and disclosed involve consideration of:

- The objectives of financial reporting;
- The qualitative characteristics and constraints on information included in GPFRs; and
- The relevant economic or other phenomena about which information may be necessary.

8.26 Information selection results in information that contributes to meeting the objectives of financial reporting, as applied to the area covered by a particular report, and provides the appropriate level of detail. Decisions on information selection involve information prioritization and summarization. Information selection avoids information overload that reduces understandability. Too much information may make it difficult for users to understand the key messages, and, consequently undermines achievement of the objectives of financial reporting.

8.27 Preparers, applying pronouncements and their professional judgment, are responsible for ensuring that information that meets the objectives of financial reporting and achieves the qualitative characteristics is provided in the GPFRs that they prepare.

8.28 Decisions on information selection require continuing and critical review. Information identified for possible selection is reviewed as it is developed and considered for presentation, with particular reference to its relevance, materiality and cost-benefit, although all the qualitative characteristics and constraints are applied to decisions on information selection. Past decisions may require reconsideration because new information may make existing information requirements redundant with the result that those items no longer achieve the qualitative characteristics and/or the constraints.

8.29 All material transactions, events, and other items reported are presented in a manner that conveys their substance rather than their legal or other form so that the qualitative characteristics of relevance and representational faithfulness are achieved.

8.30 The benefits to users of receiving information need to justify the costs to entities of collecting and presenting that information. In making this assessment it is important to consider how individual items impact on the overall view presented and the nature of the information presented. Items that may appear to have little benefit when viewed in isolation could have much greater benefit in contributing to the complete set of information presented.

8.31 Information needs to be presented on a sufficiently timely basis to enable users to hold management accountable and to inform users' decisions.

8.32 GPFRs may include additional information derived from sources other than the financial information system. The qualitative characteristics apply to such information. The date of delivery of any such additional information needs to be as close as possible to the financial statements' reporting date, so that reported information will be timely.

Principles for Selection of Information for Display and Disclosure

8.33 Decisions about display or disclosure apply to both the financial statements and other GPFRs. The objectives of financial reporting are applied to the area covered by a particular report to guide the identification of information for display or disclosure. The identification of information for display and disclosure in a particular GPFR may involve the development of:

- Classification principles;
- A list of broad types of information that are displayed and a similar list of broad types of information that are disclosed; and/or
- Lists of specific information that preparers must display or disclose.

8.34 Decisions about selection of information to be displayed and disclosed are made:

- With reference to each other rather than in isolation; and
- To effectively communicate an integrated set of information.

8.35 Selection decisions with respect to information in other GPFRs are made after carefully considering the relationship of the other GPFRs to the financial statements.

Information Location

8.36 Decisions on information location are made about which:

- Report information is located within; and
- Component of a report information is located.

8.37 The location of information has an impact on information's contribution to achievement of the objectives of financial reporting and the qualitative characteristics. Location may affect the way that users interpret information and the comparability of information. Location may be used to:

- Convey the relative importance of information and its connections with other items of information;
- Convey the nature of information;
- Link different items of information that combine to meet a particular user need; and
- Distinguish between information selected for display and information selected for disclosure.

Principles for Allocation of Information between Different Reports

8.38 Factors relevant to decisions about allocating information between the financial statements and another GPFR include:

- Nature: Whether the nature of the information, for example historical versus prospective, supports including the information either in the same or a different GPFR, because of considerations related to, for example, comparability and/or understandability;
- Jurisdiction-Specific: Whether jurisdiction-specific factors, such as legal provisions, specify requirements on information location; and
- Linkage: Whether or not the additional information envisaged needs to link very closely to information already included in an existing report. The linkages between all information need to be assessed, not only linkages between new and existing information.

8.39 The factors above, which are expressed from the perspective of adding information to an existing set of information, also apply to considerations of whether the grouping of existing information could be improved, which is discussed in the section on information organization.

8.40 A separate GPFR may be necessary when:

- Additional user information needs, not satisfied by an existing report, are identified; and
- A separate GPFR to meet those needs is more likely to achieve the objectives of financial reporting and the qualitative characteristics than including information in an existing report.

Principles for Location of Information within a Report

8.41 Paragraph 8.17 of this Chapter states that displayed information is presented prominently, using appropriate presentation techniques—location is one way to achieve this. Information location within a report ensures that displayed information is given appropriate prominence and is not obscured by more detailed and extensive disclosed information.

8.42 The location of information in the financial statements contributes to communicating a comprehensive financial picture of an entity.

8.43 For the financial statements, displayed information is shown on the face of the appropriate statement, while disclosures are in the notes. Distinguishing displayed information and disclosed information through location ensures that those items that directly relate to communicating matters, such as an entity's financial position, financial performance and cash flows, can be highlighted, with further more detailed information provided through disclosure in the notes.

8.44 For other GPFRs, displayed information may either be located separately from disclosed information or located in the same area, but distinguished from disclosed information and given prominence through the use of another presentation technique.

Information Organization

8.45 Information organization addresses the arrangement, grouping and ordering of information, which includes decisions on:

- How information is arranged within a GPFR; and
- The overall structure of a GPFR.

8.46 Information organization involves a range of decisions including decisions on the use of cross-referencing, tables, graphs, headings, numbering, and the arrangement of items within a particular component of a report, including decisions on item order. How information is organized can affect its interpretation by users.

Nature of Information Relevant to Organization

8.47 Decisions about the organization of information take into account:

- Important relationships between information; and
- Whether information is for display or disclosure.

Types of Relationships

8.48 Important relationships include, but are not restricted to:

- Enhancement;
- Similarity; and
- Shared purpose.

8.49 *Enhancement:* Information in one place in a GPFR may be enhanced through information provided elsewhere. For example, budget, prospective and service performance information enhances information in the financial statements. Tables and graphs may be used to enhance the understanding of narrative information. Links to information reported outside the GPFRs may enhance the understandability of information reported in GPFRs.

8.50 *Similarity:* A relationship of similarity exists where information reported in one place is based on information reported elsewhere in the GPFRs, and the information either has not been adjusted or has had relatively minor adjustments. For example, if service performance information includes the cost of services, or the value of assets used in different services, then it may be helpful to show how those totals relate to expense and assets reported in the financial statements. Another example is the relationship between the total expense reported against budget and total expense reported in the statement of financial performance. A reconciliation between the two different amounts can enhance users' understanding of an entity's finances.

8.51 *Shared purpose:* A relationship of shared purpose exists where information reported in different places contributes to the same purpose. An example is where different statements and disclosures provide information needed for assessments of accountability for services delivered. Information about (a) the actual and budgeted cost of different services, (b) financial and non-financial resources used in the provision of different services, and (c) future provision of different services may be included in different places. To make the relationship between the information in different places clear, it may be appropriate to organize the information by using techniques such as common headings and referencing.

8.52 Relationships may exist between information in different:

- GPFRs;
- Components within a GPFR; and
- Parts of a single component.

Grouping of Information

8.53 The three factors noted in the section on information selection as being applicable to decisions on information location—linkage, nature of information and jurisdiction-specific considerations—also apply to considerations of whether the grouping of existing information could be improved. Decisions on effective grouping of information consider linkages between information sets, the nature of the different information sets, and, to the extent appropriate, jurisdiction-specific factors.

Principles Applicable to Information Organization

8.54 Information organization:

- Supports achievement of the objectives of financial reporting; and
- Helps reported information meet the qualitative characteristics.

8.55 Information organization:

- Helps to ensure that key messages are understandable;
- Clearly identifies important relationships;
- Gives appropriate prominence to information that conveys key messages; and
- Facilitates comparisons.

8.56 Related information is linked through the use of consistent headings, presentation order, and/or other methods appropriate to the relationship and type of information. Where links are to information reported outside the GPFRs it is important that:

- Links to information from other sources do not undermine a GPFR's achievement of the qualitative characteristics; and
- The issuance date of any such linked information is as close as possible to the financial statements' reporting date so that reported information will be timely.

Comparability

8.57 Information organization takes into account the benefits of consistent presentation over time. Consistent presentation supports users' ability to understand information and facilitates their access to information. It helps to achieve the qualitative characteristic of comparability.

Principles for Information Organization within the Financial Statements

8.58 Information displayed on the face of the financial statements is usually organized into numeric totals and sub-totals. Its organization provides a structured overview of such matters as the reporting entity's financial position, financial performance and cash flows.

8.59 For the financial statements, relationships may exist between:

- Subsets of displayed amounts or changes in displayed amounts and their impact on an entity's financial position, financial performance and/or cash flows;
- Different displayed amounts in different financial statements, which all reflect the impact of a common external event, or contribute together towards an understanding of an aspect of the entity's financial position or financial performance; and
- Displayed amounts and related note disclosures that provide information that explains or could otherwise support users' understanding of displayed items.

8.60 The organization of information in financial statements includes decisions on:

- The type and number of statements;
- Disaggregation of totals into meaningful subcategories;

- Ordering and grouping of items displayed within each statement;
- Identification of aggregates (additive and subtractive); and
- Identification of other information for inclusion on the face of the statement.

8.61 Information disclosed in the notes to the financial statements is organized so that relationships to items reported on the face of the financial statements are clear. The notes are an integral part of the financial statements.

Principles for Organization of Information within Other GPFRs

8.62 As is the case for the financial statements, information organization in other GPFRs helps to ensure that key messages conveyed by displayed information are understandable. Presentation that clearly identifies important relationships is likely to enhance the extent to which a report:

- Meets the objectives of financial reporting; and
- Achieves the qualitative characteristics.

8.63 Linking related information helps users to find important information. Some information is more understandable when organized into graphs, charts, tables, ratios or key performance indicators. Other information may be presented more effectively in narrative form. Information organization supports users' understanding of linkages between information within the same GPFR.

8.64 Information organization facilitates comparisons such as making clear when items are similar or dissimilar. Inter-period comparability is facilitated by avoiding changes to the way that information is organized for the same entity from year to year unless such changes enhance relevance and understandability. Inter-entity comparisons are facilitated when different reporting entities organize the information they present in similar ways.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Concepts Applicable to Presentation in GPFRs

BC8.1 This Chapter describes concepts applicable to presentation in GPFRs, including both financial statements and additional information that enhances, complements, and supplements the financial statements. During development of this Chapter some respondents to the Consultation Paper, *Presentation in General Purpose Financial Reports* (the Consultation Paper), and the Exposure Draft, *Presentation in General Purpose Financial Reports* (the Exposure Draft), argued that the IPSASB should focus exclusively on the financial statements. Some respondents who supported the proposed more comprehensive approach considered that the resulting concepts should also be sufficiently detailed to address issues particular to financial statements.

BC8.2 The IPSASB considers that effective presentation of information in both financial statements and other GPFRs is very important in meeting the objectives of financial reporting. Presentation of information in other GPFRs raises particular challenges for the IPSASB and preparers, which makes the development of applicable concepts essential to guide the development of presentation requirements in both IPSAS and RPG. Nevertheless, the IPSASB acknowledged the need to provide concepts that are sufficiently detailed for application to the financial statements. Therefore this Chapter describes presentation concepts for all GPFRs, and sets out the concepts applicable to financial statements in more depth.

Presentation in the Financial Statements

BC8.3 The further detail provided on financial statements responds, as noted above, to the need to ensure that the concepts proposed are applicable to the financial statements. However, this Chapter does not propose the number or type of financial statements that should be specified in IPSAS and RPG. This approach acknowledges that, internationally, some preparers treat the "primary" financial statements as a minimum requirement, with flexibility for the preparer to add further statements—for example, additional statements that list commitments or public sector debt—to the financial statements required by IPSAS. It is also consistent with the need to avoid over-specification at the Conceptual Framework level.

BC8.4 This Chapter also does not attempt to identify a list of information that should be included in the financial statements, including the notes. This means that the presentation concepts applicable to the financial statements will remain relevant as changes occur in areas such as:

- The type of information required to adequately meet the objectives of financial reporting;
- The information technology available to present information in GPFRs; and
- The type of economic or other phenomena on which financial statements present information.

Language in which Financial Statements and Other GPFRs are issued

BC8.5 Some respondents to the Exposure Draft expressed a view that the language (or languages) in which the financial statements and other GPFRs are issued has implications for whether they will support achievement of the objectives of financial reporting and achieve the qualitative characteristics. Responding to this concern the IPSASB decided that this Chapter should address the language(s) in which GPFRs are issued. The quality of any translation will impact on the usefulness of a GPFR to users who depend on that translation. The quality of translation should be sufficient to ensure that the translated version(s) are faithful to the original language version. A faithful translation enables users to obtain the same understanding as that of an original language speaker reading the original language version.

Presentation, Display and Disclosure

BC8.6 During development of this Chapter descriptions of "presentation", "display", "disclosure", "core information", and "supporting information" were proposed. Respondents had different views on whether the descriptions were appropriate. There was significant support for the description of presentation, which covered the selection, location and organization of information. Some respondents opposed the introduction of such descriptions, because they considered that the terms "presentation" and "disclosure" have been widely used by standard setters and have generally accepted meanings. Some respondents to the Exposure Draft advocated the alignment of the IPSASB's terminology with the presentation terminology for the financial statements under development by the International Accounting Standards Board in its project to update its Conceptual Framework.

BC8.7 The IPSASB considers that having terminology that applies to all information included in GPFRs, rather than just the financial statements, may prevent full alignment with terminology that relates only to the financial statements. If the term "presentation" applies to information that conveys key messages in the financial statements, then extending the same term to other information included in GPFRs changes the meaning of the term. The term "display" signals that information that conveys key messages can be selected for either the financial statements or other information included in GPFRs.

BC8.8 The IPSASB is of the view that the distinction between presentation and disclosure used in some jurisdictions, where presentation applies to the process of reporting information on the face of a statement and disclosure applies to the process of reporting information in the notes, is inadequate for presentation concepts for GPFRs. Distinctions focused on the financial statements have limited usefulness and may be confusing for other GPFRs outside the financial statements. In the context of the financial statements, display and disclosure support a clear distinction between the process of reporting information on the face of a financial statement—display—and that of reporting information in the notes to the statements—disclosure. For these reasons the IPSASB retained the descriptions of presentation, display and disclosure proposed in the Exposure Draft with revised explanations.

BC8.9 The description of presentation proposed in the Consultation Paper included both what presentation is—information selection, location and organization—and what presentation should do—it should meet the objectives of financial reporting, the needs of users, and achieve the qualitative characteristics. After further consideration the IPSASB decided that separation of these two areas would better facilitate consideration of presentation issues. Therefore presentation is described as information selection, location and organization. There is also a description of what presentation aims to achieve, which is to provide information that contributes to the objectives of financial reporting, and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs.

BC8.10 Some respondents considered the distinction between core and supporting information proposed in the Consultation Paper implied that information in the notes to the financial statements is less important than information on the face of a statement and that it created a hierarchy. Although the IPSASB did not intend to imply that supporting information is less important than core information the IPSASB acknowledged such concerns. The IPSASB therefore reconsidered the need for a distinction between core and supporting information and concluded that incorporating the ideas related to these two types of information into the descriptions of display and disclosure within each GPFR would be more appropriate. Consequently the terms core information and supporting information were not retained in the Exposure Draft and the descriptions of display and disclosure were revised to explain what types of information would be displayed and what disclosed, without the implication that one type of information is more important than the other. This approach is reflected in this Chapter.

BC8.11 The IPSASB also considered whether all GPFRs contain both information for display and information for disclosure, and whether it is possible to have a GPFR that only contains information for disclosure. Because key messages exist for each type of GPFR, and information to convey those key messages needs to be displayed, the IPSASB concluded that all GPFRs contain both information for display and information for disclosure.

Overall Approach to Presentation

BC8.12 The Consultation Paper proposed an approach to presentation of:

- Focusing on user needs to identify presentation objectives;
- Applying the qualitative characteristics to presentation decisions; and
- Identifying separate presentation concepts—the proposed concepts were Concept 1: Select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely; Concept 2: Locate information to meet user needs; and Concept 3: Organize information to make important relationships clear and support comparability.

The Consultation Paper also proposed that presentation objectives should be established at the standards level, for application to particular reports or reporting topics.

BC8.13 Respondents generally agreed that the needs of users and achievement of the qualitative characteristics were important for presentation decisions. They supported the development of presentation objectives, but advocated that such objectives should be included in the Conceptual Framework, rather than just at standards level. Although they generally agreed that separate presentation concepts should be developed, a significant number of respondents disagreed with the three presentation concepts proposed. Some respondents disagreed with the way that the three presentation concepts emphasized particular qualitative characteristics or constraints on information included in GPFRs. They argued that other qualitative characteristics or constraints should be addressed. Others argued that the concepts added little, if anything, to the discussion of the qualitative characteristics and constraints on information included in GPFRs in Chapter 3, *Qualitative Characteristics*.

BC8.14 On balance the IPSASB concluded that a simpler, more focused approach, which directly applied the concepts in Chapters 1–4 to presentation decisions was appropriate. The IPSASB is of the view that decisions on information selection, location and organization are made in response to the needs of users for information about economic or other phenomena. Presentation decisions are made to seek to achieve the objectives of financial reporting, and they involve application of the qualitative characteristics and constraints on information included in GPFRs.

BC8.15 Presentation decisions may be either (a) decisions that may result in development of a new report, movement of information between reports, or the amalgamation of existing reports; or, (b) detailed decisions on information selection, location and organization related to information within a report. It is useful to distinguish between these two types of presentation decisions in the context of the more comprehensive scope of financial reporting discussed in Chapter 2. Both types of decisions are important and there is no intention to convey a hierarchy. The difference is one of breadth or sequencing of decisions—for example, a decision to create a new report conveys that a broad set of information will be presented. The subsequent, more specific decisions will address what is presented within that report and are equally important.

BC8.16 The need to distinguish between the display and disclosure of information is a further important aspect of the IPSASB's overall approach to presentation. An example of a detailed decision within a report is a decision about whether information should be displayed on the face of a financial statement or disclosed in the notes.

Presentation Objectives

BC8.17 As stated above, in the Consultation Paper the IPSASB proposed the development of "presentation objectives" to guide presentation decisions. Although many respondents supported identifying presentation objectives the IPSASB decided against the inclusion of presentation objectives in this Chapter, because they would create an unnecessary additional layer of objectives beneath the objectives of financial reporting in Chapter 2. Development of a second layer of presentation objectives could be confusing and detract from the objectives of financial reporting. This approach was proposed in the Exposure Draft and was generally supported by respondents.

Application of the Qualitative Characteristics and Constraints

BC8.18 During development of this Chapter many respondents supported application of the qualitative characteristics to presentation decisions. However, some respondents expressed reservations that the constraints on information included in GPFRs had not been properly integrated into the overall approach to presentation. The IPSASB agrees that the constraints apply to presentation decisions. They are therefore included in the overall approach to presentation and in subsequent discussion of the application of the three presentation decisions.

Presentation Concepts

BC8.19 After considering respondents' concerns about the three presentation concepts proposed in the Consultation Paper and possible further changes to address those concerns, the IPSASB concluded that the ideas in the three concepts were adequately addressed through application of the qualitative characteristics and constraints on information included in GPFRs to presentation decisions. Therefore, in the Exposure Draft the IPSASB replaced the three presentation concepts proposed in the Consultation Paper with a revised description of the application of the qualitative characteristics and constraints on information included in GPFRs to presentation decisions. Respondents to the Exposure Draft generally supported the direct application of the concepts established in Chapters 1–4, rather than development of an intermediary set of either presentation concepts or presentation objectives.

Information Organization: Links to External Information

BC8.20 Chapter 2 of the Conceptual Framework explains that users of GPFRs may also need to consider information from other sources, including reports on current and anticipated economic conditions, budgets and forecasts, and information about government policy initiatives not reported in GPFRs. The IPSASB considered whether GPFRs should include links to such information. Although the IPSASB acknowledged the risk that such information may not achieve the qualitative characteristics, the IPSASB concluded that such links can support understandability. Therefore, provided information from external sources does not undermine achievement of the qualitative characteristics the IPSASB concluded that GPFRs might include links to such information.

Appendix A

Conceptual Framework Due Process Publications

Title	Date Issued	Consultation Period Ended
Consultation Paper, *The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*	September 30, 2008	March 30, 2009
Consultation Paper, *Elements and Recognition in Financial Statements*	December 15, 2010	June 14, 2011
Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*	December 15, 2010	June 14, 2011
Exposure Draft 1, *Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*	December 15, 2010	June 14, 2011
Exposure Draft, *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*	April 29, 2011	August 31, 2011
Consultation Paper, *Presentation in General Purpose Financial Reports*	January 29, 2012	May 31, 2012
Exposure Draft 2, *Elements and Recognition in Financial Statements*	November 7, 2012	April 30, 2013
Exposure Draft 3, *Measurement of Assets and Liabilities in Financial Statements*	November 7, 2012	April 30, 2013
Exposure Draft 4, *Presentation in General Purpose Financial Reports*	April 17, 2013	August 15, 2013
Exposure Draft 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*	April 22, 2021	October 25, 2021
Exposure Draft 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*	February 1, 2022	May 31, 2022

IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 1 (Revised 2003), *Presentation of Financial Statements*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 1 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 1, *Presentation of Financial Statements* was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 1.

Since then, IPSAS 1 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective* Dates (issued November 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 38, *Disclosure of Interests in Other Entities* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standar*ds (IPSAS) (issued January 2015)
- *Improvements to IPSAS 2014* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 30, *Financial Instruments: Disclosures* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 28, *Financial Instruments: Presentation* (issued January 2010)

Table of Amended Paragraphs in IPSAS 1

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
4	Amended	IPSAS 35 January 2015
5	Deleted	*The Applicability of IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
6	Deleted	*The Applicability of IPSAS* April 2016
7	Amended	IPSAS 35 January 2015 *The Applicability of IPSAS* April 2016 IPSAS 41 August 2018 IPSAS 45 May 2023
7A	New	IPSAS 28 January 2010
12	Deleted	*The Applicability of IPSAS* April 2016
21	Amended	*Improvements to IPSAS* January 2015
29	Amended	*Improvements to IPSAS* April 2016
44	Amended	*Improvements to IPSAS* April 2016
50	Amended	IPSAS 47 May 2023
53	Amended	*Improvements to IPSAS* January 2015
53A	New	*Improvements to IPSAS* January 2015
54	Amended	*Improvements to IPSAS* January 2015
70	Amended	*Improvements to IPSAS* April 2016
73	Amended	*Improvements to IPSAS* April 2016
74	Amended	*Improvements to IPSAS* April 2016
75	Amended	IPSAS 30 January 2010
79	Amended	IPSAS 29 January 2010 *Improvements to IPSAS* January 2010 IPSAS 41 August 2018
80	Amended	*Improvements to IPSAS* November 2010
82	Amended	IPSAS 29 January 2010 *Improvements to IPSAS* January 2010 *Improvements to IPSAS* November 2010 IPSAS 41 August 2018
88	Amended	IPSAS 35 January 2015 IPSAS 42 January 2019 IPSAS 44 May 2022 IPSAS 47 May 2023
92	Amended	IPSAS 45 May 2023
94	Amended	IPSAS 42 January 2019

Paragraph Affected	How Affected	Affected By
		IPSAS 45 May 2023 IPSAS 47 May 2023
95	Amended	IPSAS 35 January 2015
95A	New	IPSAS 28 January 2010
97	Amended	IPSAS 35 January 2015 *The Applicability of IPSAS* April 2016
101	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018 IPSAS 45 May 2023
102	Amended	IPSAS 41 August 2018 IPSAS 44 May 2022
103	Amended	IPSAS 35 January 2015
107	Amended	IPSAS 44 May 2022
109	Amended	*Improvements to IPSAS* April 2016
112	Amended	IPSAS 42 January 2019
113	Amended	IPSAS 42 January 2019
114	Amended	IPSAS 42 January 2019
115	Amended	IPSAS 42 January 2019
116	Amended	IPSAS 39 July 2016 *Improvements to IPSAS* April 2016
118	Amended	IPSAS 35 January 2015
125A	New	IPSAS 41 August 2018
125B	New	IPSAS 41 August 2018
125C	Amended	IPSAS 41 August 2018 IPSAS 45 May 2023
129	Amended	IPSAS 30 January 2010
133	Amended	IPSAS 46 May 2023
134	Amended	IPSAS 38 January 2015 IPSAS 45 May 2023 IPSAS 46 May 2023
135	Amended	IPSAS 35 January 2015 IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
		IPSAS 47 May 2023
138	Amended	IPSAS 41 August 2018
139	Amended	IPSAS 38 January 2015
141	Amended	IPSAS 46 May 2023
143	Amended	IPSAS 46 May 2023
148	Amended	IPSAS 30 January 2010 IPSAS 45 May 2023
148A	New	IPSAS 30 January 2010
148B	New	IPSAS 30 January 2010
148C	New	IPSAS 30 January 2010
148D	New	IPSAS 28 January 2010
150	Amended	IPSAS 28 January 2010
151	Deleted	IPSAS 33 January 2015
152	Deleted	IPSAS 33 January 2015
153A	New	*Improvements to IPSAS* January 2010
153B	New	IPSAS 28 January 2010
153C	New	IPSAS 30 January 2010
153D	New	*Improvements to IPSAS* November 2010
153E	New	*Improvements to IPSAS* January 2015
153F	New	IPSAS 33 January 2015
153G	New	IPSAS 38 January 2015 IPSAS 35 January 2015
153H	New	*Improvements to IPSAS* April 2016
153I	New	*The Applicability of IPSAS* April 2016
153J	New	IPSAS 39 July 2016
153K	New	IPSAS 40 January 2017
153L	Amended	*COVID-19: Deferral of Effective Dates* November 2020
153M	New	IPSAS 42 January 2019
153N	New	IPSAS 44 May 2022
153O	New	IPSAS 45 May 2023

Paragraph Affected	How Affected	Affected By
153P	New	IPSAS 46 May 2023
153Q	New	IPSAS 47 May 2023
154	Amended	IPSAS 33 January 2015
Implementation Guidance	Amended	IPSAS 44 May 2022 IPSAS 47 May 2023

IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

CONTENTS

International Public Sector Accounting Standard 1, *Presentation of Financial Statements*, is set out in paragraphs 1−155. All the paragraphs have equal authority. IPSAS 1 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other IPSAS.

Scope

2. **This Standard shall be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with IPSAS.**

3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document, such as an annual report. This Standard does not apply to condensed interim financial information.

4. This Standard applies equally to all entities including those that present consolidated financial statements in accordance with IPSAS 35, *Consolidated Financial Statements* and those that present separate financial statements, in accordance with IPSAS 34, *Separate Financial Statements*.

5. [Deleted]

6. [Deleted]

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

<u>Accrual basis</u> means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.

<u>Assets</u> are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

<u>Contributions from owners</u> means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

(a) **Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**

(b) **Can be sold, exchanged, transferred, or redeemed.**

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

An economic entity is a controlling entity and its controlled entities.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests. Types of reserves include:

(a) **Changes in revaluation surplus (see IPSAS 31, *Intangible Assets* and IPSAS 45, *Property, Plant, and Equipment*);**

(b) **Remeasurements of defined benefit plans (see IPSAS 39, *Employee Benefits*);**

(c) **Gains and losses arising from translating the financial statements of a foreign operation (see IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*);**

(d) **Gains and losses from investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41, *Financial Instruments*;**

(e) **Gains and losses on financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41;**

(f) **The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 (see paragraphs 113–155 of IPSAS 41);**

(g) **For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 108 of IPSAS 41);**

(h) **Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see paragraphs 113–155 of IPSAS 41); and**

(i) **Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see paragraphs 113–155 of IPSAS 41).**

<u>Notes</u> contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

<u>Revenue</u> is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

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.

7A. The following terms are described in IPSAS 28*, Financial Instruments: Presentation* and are used in this Standard with the meaning specified in IPSAS 28:

(a) Puttable financial instrument classified as an equity instrument (described in paragraphs 15 and 16 of IPSAS 28);

(b) An instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 17 and 18 of IPSAS 28).

Economic Entity

8. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

9. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

10. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

11. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

12. [Deleted]

Materiality

13. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting, and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Net Assets/Equity

14. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Purpose of Financial Statements

15. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:

    (a) Providing information about the sources, allocation, and uses of financial resources;

    (b) Providing information about how the entity financed its activities and met its cash requirements;

    (c) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

    (d) Providing information about the financial condition of the entity and changes in it; and

    (e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency, and accomplishments.

16. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

    (a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and

    (b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

17. To meet these objectives, the financial statements provide information about an entity's:

    (a) Assets;

    (b) Liabilities;

    (c) Net assets/equity;

    (d) Revenue;

    (e) Expenses;

    (f) Other changes in net assets/equity; and

(g) Cash flows.

18. Although the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 15, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

19. The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions who may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general).

20. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

Components of Financial Statements

21. **A complete set of financial statements comprises:**

(a) **A statement of financial position;**

(b) **A statement of financial performance;**

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

(d) **A cash flow statement;**

(e) **When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements;**

(f) **Notes, comprising a summary of significant accounting policies and other explanatory notes; and**

(g) **Comparative information in respect of the preceding period as specified in paragraphs 53 and 53A of IPSAS 1.**

22. The components listed in paragraph 21 are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes may include items referred to as schedules in some jurisdictions.

23. The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

24. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Entities that make publicly available their approved budget(s) are required to comply with the requirements of IPSAS 24, *Presentation of Budget Information in Financial Statements*. For other entities, where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budget(s) for these entities may be presented in various different ways, including:

- The use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and
- Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

25. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of (a) performance indicators, (b) statements of service performance, (c) program reviews, and (d) other reports by management about the entity's achievements over the reporting period.

26. Entities are also encouraged to disclose information about compliance with legislative, regulatory, or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes, and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Overall Considerations

Fair Presentation and Compliance with IPSAS

27. **Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The application of IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.**

28. **An entity whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS.**

29. In virtually all circumstances, a fair presentation is achieved by compliance with applicable IPSAS. A fair presentation also requires an entity:

(a) To select and apply accounting policies in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.* IPSAS 3 sets out a hierarchy of authoritative guidance that management considers, in the absence of a Standard that specifically applies to an item.

(b) To present information, including accounting policies, in a manner that provides relevant, faithfully representative, understandable, timely, comparable, and verifiable information.

(c) To provide additional disclosures when compliance with the specific requirements in IPSAS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

30. **Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**

31. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, the entity shall depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**

32. **When an entity departs from a requirement of a Standard in accordance with paragraph 31, it shall disclose:**

(a) **That management has concluded that the financial statements present fairly the entity's financial position, financial performance, and cash flows;**

(b) **That it has complied with applicable IPSAS, except that it has departed from a particular requirement to achieve a fair presentation;**

(c) **The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this Standard, and the treatment adopted; and**

(d) **For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

33. **When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognized in the financial statements for the current period, it shall make the disclosures set out in paragraph 32(c) and (d).**

34. Paragraph 33 applies, for example, when an entity departed in a prior period from a requirement in a Standard for the measurement of assets or liabilities, and that departure affects the measurement of changes in assets and liabilities recognized in the current period's financial statements.

35. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

(a) **The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this Standard; and**

(b) **For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.**

36. For the purpose of paragraphs 31−35, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events, and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, management considers:

(a) Why the objective of financial statements is not achieved in the particular circumstances; and

(b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this Standard.

37. Departures from the requirements of an IPSAS in order to comply with statutory/legislative financial reporting requirements in a particular jurisdiction do not constitute departures that conflict with the objective of financial statements set out in this Standard as outlined in paragraph 31. If such departures are material, an entity cannot claim to be complying with IPSAS

Going Concern

38. **When preparing financial statements, an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of financial statements. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.**

39. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.

40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and

(b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial statements may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organizational units, (c) estimates of revenue or the likelihood of continued government funding, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Consistency of Presentation

42. **The presentation and classification of items in the financial statements shall be retained from one period to the next unless:**

    (a) **It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or**

    (b) **An IPSAS requires a change in presentation.**

43. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.

44. An entity changes the presentation of its financial statements only if the changed presentation provides information that is faithfully representative and is more relevant to users of the financial statements, and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 55 and 56.

Materiality and Aggregation

45. **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.**

46. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

47. Applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material.

Offsetting

48. **Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.**

49. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both (a) to understand the transactions, other events and conditions that have occurred, and (b) to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

50. IPSAS 47, *Revenue*, requires revenue to be measured at the amount of consideration to which the entity expects to be entitled in the transaction. The amount of revenue recognized reflects any trade discounts and volume rebates allowed by the entity. In the course of its activities, an entity undertakes other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

(a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and

(b) Expenses related to a provision that is recognized in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.

51. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

52. The offsetting of cash flows is dealt with in IPSAS 2, *Cash Flow Statements.*

Comparative Information

Minimum Comparative Information

53. **Except when an IPSAS permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.**

53A. **An entity shall present, as a minimum, one statement of financial position with comparative information for the preceding period, one statement of financial performance with comparative information for the preceding period, one cash flow statement with comparative information for the preceding period and one statement of changes in net assets/equity with comparative information for the preceding period, and related notes.**

54. In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

55. **When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:**

(a) **The nature of the reclassification;**

(b) **The amount of each item or class of items that is reclassified; and**

(c) **The reason for the reclassification.**

56. **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

(a) **The reason for not reclassifying the amounts; and**

(b) **The nature of the adjustments that would have been made if the amounts had been reclassified.**

57. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

58. IPSAS 3 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Structure and Content

Introduction

59. This Standard requires particular disclosures on the face of the statement of financial position, statement of financial performance, and statement of changes in net assets/equity, and requires disclosure of other line items either on the face of those statements or in the notes. IPSAS 2 sets out requirements for the presentation of a cash flow statement.

60. This Standard sometimes uses the term disclosure in a broad sense, encompassing items presented on the face of the (a) statement of financial position, (b) statement of financial performance, (c) statement of changes in net assets/equity, and (d) cash flow statement, as well as in the notes. Disclosures are also required by other IPSAS. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement (whichever is relevant), or in the notes.

Identification of the Financial Statements

61. **The financial statements shall be identified clearly, and distinguished from other information in the same published document.**

62. IPSAS apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using IPSAS from other information that may be useful to users but is not the subject of those requirements.

63. **Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:**

(a) **The name of the reporting entity or other means of identification, and any change in that information from the preceding reporting date;**

(b) **Whether the financial statements cover the individual entity or the economic entity;**

(c) **The reporting date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;**

(d) **The presentation currency, as defined in IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*; and**

(e) **The level of rounding used in presenting amounts in the financial statements.**

64. The requirements in paragraph 63 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

65. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

66. **Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:**

(a) **The reason for using a longer or shorter period; and**

(b) **The fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement, and related notes are not entirely comparable.**

67. In exceptional circumstances, an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that (a) users be aware that the amounts shown for the current period and comparative amounts are not comparable, and (b) the reason for the change in reporting date is disclosed. A further example is where, in making the transition from cash to accrual accounting, an entity changes the reporting date for entities within the economic entity to enable the preparation of consolidated financial statements.

68. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Timeliness

69. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

Statement of Financial Position

Current/Non-current Distinction

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

71. **Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the reporting date, and (b) more than twelve months after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.**

72. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

73. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is faithfully representative and is more relevant than a current/non-current presentation, because the entity does not supply goods or services within a clearly identifiable operating cycle.

74. In applying paragraph 70, an entity is permitted to present some of its assets and liabilities using a current/non-current classification, and others in order of liquidity, when this provides information that is faithfully representative and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

75. Information about expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IPSAS 30, *Financial Instruments: Disclosures*, requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current.

Current Assets

76. **An asset shall be classified as current when it satisfies any of the following criteria:**

    (a) **It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;**

    (b) **It is held primarily for the purpose of being traded;**

    (c) **It is expected to be realized within twelve months after the reporting date; or**

    (d) **It is cash or a cash equivalent (as defined in IPSAS 2), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.**

    All other assets shall be classified as non-current.

77. This Standard uses the term non-current assets to include tangible, intangible, and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

78. The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to public sector entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political, and economic outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

79. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realized, consumed or sold, as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IPSAS 41) and the current portion of non-current financial assets.

Current Liabilities

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

(a) **It is expected to be settled in the entity's normal operating cycle;**

(b) **It is held primarily for the purpose of being traded;**

(c) **It is due to be settled within twelve months after the reporting date; or**

(d) **The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date (see paragraph 84). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.**

All other liabilities shall be classified as non-current.

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities that meet the definition of held for trading in IPSAS 41, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 85 and 86.

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

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

(b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue.

84. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is

not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

85. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

87. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are authorized for issue, those events qualify for disclosure as non-adjusting events in accordance with IPSAS 14, *Events after the Reporting Date*:

(a) Refinancing on a long-term basis;

(b) Rectification of a breach of a long-term loan agreement; and

(c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting date.

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) **Property, plant, and equipment;**

(b) **Investment property;**

(c) **Intangible assets;**

(d) **Financial assets (excluding amounts shown under (e), (g), (h) and (i));**

(e) **Investments accounted for using the equity method;**

(f) **Inventories;**

(g) [Deleted]

(h) **Receivables;**

(i) **Cash and cash equivalents;**

(ia) **The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations;***

(j) **Taxes and transfers payable;**

(ja) **Social benefits liabilities;**

(k) **Payables;**

(l) **Provisions;**

(m) **Financial liabilities (excluding amounts shown under (j), (k) and (l));**

(ma) **Liabilities included in disposal groups classified as held for sale in accordance with IPSAS 44;**

(n) **Non-controlling interest, presented within net assets/equity; and**

(o) **Net assets/equity attributable to owners of the controlling entity.**

89. **Additional line items, headings, and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.**

90. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 88 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. Illustrative formats are set out in Implementation Guidance to this Standard. In addition:

(a) Line items are included when the size, nature, or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) The descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

91. The judgment on whether additional items are presented separately is based on an assessment of:

(a) The nature and liquidity of assets;

(b) The function of assets within the entity; and

(c) The amounts, nature and timing of liabilities.

92. The use of different measurement models for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 45.

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

93. **An entity shall disclose, either on the face of the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.**

94. The detail provided in subclassifications depends on the requirements of IPSAS and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) Items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 45;

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other revenue transactions, receivables from related parties, prepayments, and other amounts;

(c) Inventories are subclassified in accordance with IPSAS 12, Inventories, into classifications such as merchandise, production supplies, materials, work in progress, and finished goods;

(d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(da) Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;

(e) Provisions are disaggregated into provisions for employee benefits and other items; and

(f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

95. **When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:**

(a) **Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;**

(b) **Accumulated surpluses or deficits;**

(c) **Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and**

(d) **Non-controlling interests.**

95A. **If an entity has reclassified:**

(a) **A puttable financial instrument classified as an equity instrument; or**

(b) **An instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument;**

between financial liabilities and net assets/equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or net assets/equity), and the timing and reason for that reclassification.

96. Many public sector entities will not have share capital, but the entity will be controlled exclusively by another public sector entity. The nature of the government's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves that reflect the net assets/equity attributable to the entity's operations.

97. In some cases, there may be a non-controlling interest in the net assets/equity of the entity. For example, at the whole-of-government level, the economic entity may include a commercial public sector entity that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.

98. **When an entity has share capital, in addition to the disclosures in paragraph 95, it shall disclose the following, either on the face of the statement of financial position or in the notes:**

(a) **For each class of share capital:**

(i) **The number of shares authorized;**

(ii) **The number of shares issued and fully paid, and the number issued but not fully paid;**

(iii) **Par value per share, or that the shares have no par value;**

(iv) **A reconciliation of the number of shares outstanding at the beginning and at the end of the year;**

(v) **The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**

(vi) **Shares in the entity held by the entity or by its controlled entities or associates; and**

(vii) **Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and**

(b) **A description of the nature and purpose of each reserve within net assets/equity.**

Statement of Financial Performance

Surplus or Deficit for the Period

99. **All items of revenue and expense recognized in a period shall be included in surplus or deficit, unless an IPSAS requires otherwise.**

100. Normally, all items of revenue and expense recognized in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period. IPSAS 3 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.

101. Other IPSAS deal with items that may meet definitions of revenue or expense set out in this Standard, but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 45), particular (a) gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4), and (b) gains or losses on remeasuring financial assets measured at fair value through net assets/equity (guidance on measurement of financial assets can be found in IPSAS 41).

Information to be Presented on the Face of the Statement Financial Performance

102. **As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:**

    (a) **Revenue, presenting separately:**

        (i) **Interest revenue calculated using the effective interest method; and**

        (ii) **Gains and losses arising from the derecognition of financial assets measured at amortized cost;**

    (b) **Finance costs;**

    (ba) **Impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with paragraphs 73–93 of IPSAS 41;**

    (c) **Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;**

    (ca) **If a financial asset is reclassified out of the amortized cost measurement category so that it is measured at fair value through surplus or deficit, any gain or loss arising from a difference between the previous amortized cost of the financial asset and its fair value at the reclassification date (as defined in IPSAS 41);**

    (cb) **If a financial asset is reclassified out of the fair value through net asset/equity measurement category so that it is measured at fair value through surplus or deficit, any cumulative gain or loss previously recognized in net assets/equity that is reclassified to surplus or deficit;**

    (d) [Deleted]

    (e) **Surplus or deficit; and**

    (f) **A single amount for the total of discontinued operations (see IPSAS 44).**

103. **The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:**

    (a) **Surplus or deficit attributable to non-controlling interest; and**

    (b) **Surplus or deficit attributable to owners of the controlling entity.**

104. **Additional line items, headings, and subtotals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.**

105. Because the effects of an entity's various activities, transactions, and other events differ in terms of their impact on its ability to meet its service delivery obligations, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be considered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are not offset unless the criteria in paragraph 48 are met.

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

106. **When items of revenue and expense are material, their nature and amount shall be disclosed separately**.

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) Write-downs of inventories to net realizable value or of property, plant, and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

(b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) Disposals of items of property, plant, and equipment;

(d) Privatizations or other disposals of investments;

(e) Discontinued operations;

(f) Litigation settlements; and

(g) Other reversals of provisions.

108. **An entity shall present, either on the face of the statement of financial performance or in the notes, a subclassification of total revenue, classified in a manner appropriate to the entity's operations.**

109. **An entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant.**

110. Entities are encouraged to present the analysis in paragraph 109 on the face of the statement of financial performance.

111. Expenses are subclassified to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of the reporting entity. This analysis is provided in one of two ways.

112. The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits, and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Employee benefits costs	X	
Social benefits expenses	X	
Depreciation and amortization expense	X	
Other expenses	X	
Total expenses		(X)
Surplus		X

113. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue	X
Expenses:	
Social benefits expenses	(X)
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
Surplus	X

114. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of social benefits, health and education services. The entity would present expense line items for each of these functions.

115. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense, social benefits expense and employee benefits expense.**

116. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and faithfully representative presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 115, employee benefits has the same meaning as in IPSAS 39.

117. **When an entity provides a dividend or similar distribution to its owners and has share capital, it shall disclose, either on the face of the statement of financial performance or the statement of changes in net assets/equity, or in the notes, the amount of dividends or similar distributions recognized as distributions to owners during the period, and the related amount per share.**

Statement of Changes in Net Assets/Equity

118. **An entity shall present a statement of changes in net assets/equity showing on the face of the statement:**

(a) **Surplus or deficit for the period;**

(b) **Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;**

(c) **Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to non-controlling interest; and**

(d) **For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.**

119. **An entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:**

(a) **The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;**

(b) **The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and**

(c) **To the extent that components of net assets/equity are separately disclosed, reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.**

120. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its net assets during the period.

121. The overall change in net assets/equity during a period represents the total amount of surplus or deficit for the period, other revenues and expenses recognized directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners.

122. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognized as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.

123. This Standard requires all items of revenue and expense recognized in a period to be included in surplus or deficit, unless another IPSAS requires otherwise. Other IPSAS require some items (such as revaluation increases and decreases, particular foreign exchange differences) to be recognized directly as changes in net assets/equity. Because it is important to consider all items of revenue and expense in assessing changes in an entity's financial position between two reporting dates, this Standard requires the presentation of a statement of changes in net assets/equity that highlights an entity's total revenue and expenses, including those that are recognized directly in net assets/equity.

124. IPSAS 3 requires retrospective adjustments to reflect changes in accounting policies, to the extent practicable, except when the transitional provisions in another IPSAS require otherwise. IPSAS 3 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of accumulated surpluses or deficits, except when an IPSAS requires retrospective adjustment of another component of net assets/equity.

Paragraph 118(d) requires disclosure in the statement of changes in net assets/equity of the total adjustment to each component of net assets/equity separately disclosed resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

125. The requirements in paragraphs 118 and 119 may be met by using a columnar format that reconciles the opening and closing balances of each element within net assets/equity. An alternative is to present only the items set out in paragraph 118 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 119 are shown in the notes.

125A. Other IPSAS specify whether and when amounts previously recognized in net assets/equity are reclassified to surplus or deficit. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of net assets/equity in the period that the adjustment is reclassified to surplus or deficit. These amounts may have been recognized in net assets/equity as unrealized gains in the current or previous periods. Those unrealized gains must be deducted from net assets/equity in the period in which the realized gains are reclassified to surplus or deficit to avoid including them in the statement of changes in net assets/equity twice.

125B. Reclassification adjustments arise, for example, on disposal of a foreign operation (see IPSAS 4) and when some hedged forecast cash flows affect surplus or deficit (see paragraph 140(d) of IPSAS 41 in relation to cash flow hedges).

125C. Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with IPSAS 31 or IPSAS 45 on remeasurements of defined benefit plans recognized in accordance with IPSAS 39. These components are recognized in net assets/equity and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated surpluses or deficits in subsequent periods as the asset is used or when it is derecognized (see IPSAS 31 or IPSAS 45). In accordance with IPSAS 41, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of net assets/equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Cash Flow Statement

126. Cash flow information provides users of financial statements with a basis to assess (a) the ability of the entity to generate cash and cash equivalents, and (b) the needs of the entity to utilize those cash flows. IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

127. **The notes shall:**

(a) **Present information about the basis of preparation of the financial statements and the specific accounting policies used, in accordance with paragraphs 132−139;**

(b) **Disclose the information required by IPSAS that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement; and**

(c) **Provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, but that is relevant to an understanding of any of them.**

128. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, and cash flow statement shall be cross-referenced to any related information in the notes.**

129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

(a) A statement of compliance with IPSAS (see paragraph 28);

(b) A summary of significant accounting policies applied (see paragraph 132);

(c) Supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, in the order in which each statement and each line item is presented; and

(d) Other disclosures, including:

(i) Contingent liabilities (see IPSAS 19), and unrecognized contractual commitments; and

(ii) Non-financial disclosures, e.g., the entity's financial risk management objectives and policies (see IPSAS 30).

130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

131. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of Accounting Policies

132. **An entity shall disclose in the summary of significant accounting policies:**

(a) **The measurement basis (or bases) used in preparing the financial statements;**

(b) **The extent to which the entity has applied any transitional provisions in any IPSAS; and**

(c) **The other accounting policies used that are relevant to an understanding of the financial statements.**

133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, the historical cost basis, current operational value, cost of fulfillment, or fair value), because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSAS. An example is disclosure of whether an entity applies the current value model or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSAS specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those

Standards. For example, IPSAS 45 requires disclosure of the measurement bases used for classes of property, plant, and equipment. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When public sector combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

136. An accounting policy may be significant because of the nature of the entity's operation, even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IPSAS, but is selected and applied in accordance with IPSAS 3.

137. **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 140), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements.**

138. In the process of applying the entity's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in the financial statements. For example, management makes judgments in determining:

- Whether assets are investment properties;
- Whether agreements for the provision of goods and/or services that involve the use of dedicated assets are leases;
- Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue;
- Whether the substance of the relationship between the reporting entity and other entities indicates that these other entities are controlled by the reporting entity; and,
- Whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

139. Some of the disclosures made in accordance with paragraph 137 are required by other IPSAS. For example, IPSAS 38, *Disclosure of Interests in Other Entities,* requires an entity to disclose the judgments it has made in determining whether it controls another entity. IPSAS 16, *Investment Property*, requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property, and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Key Sources of Estimation Uncertainty

140. **An entity shall disclose in the notes information about (a) the key assumptions concerning the future, and (b) other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

(a) **Their nature; and**

(b) **Their carrying amount as at the reporting date.**

141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of a quoted

price in an active market used to measure the following assets and liabilities, future-oriented estimates are necessary to measure (a) the recoverable amount of certain classes of property, plant, and equipment, (b) the effect of technological obsolescence on inventories, and (c) provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.

142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 relate to the estimates that require management's most difficult, subjective, or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at current operational value or fair value based on a quoted price in an active market for an identical asset or liability. (Such current operational values or fair values might change materially within the next financial year, but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

144. The disclosures in paragraph 140 are presented in a manner that helps users of financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

(a) The nature of the assumption or other estimation uncertainty;

(b) The sensitivity of carrying amounts to the methods, assumptions, and estimates underlying their calculation, including the reasons for the sensitivity;

(c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

145. It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph 140.

146. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

147. The disclosures in paragraph 137 of particular judgments management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 140.

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other IPSAS. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 30 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. IPSAS 45 requires disclosure of measurement techniques and inputs

applied in measuring current operational values and fair values of revalued items of property, plant, and equipment.

Capital

148A. **An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing capital.**

148B. To comply with paragraph 148A the entity discloses the following:

(a) Qualitative information about its objectives, policies, and processes for managing capital, including (but not limited to):

(i) A description of what it manages as capital;

(ii) When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) How it is meeting its objectives for managing capital.

(b) Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g., some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g., components arising from cash flow hedges).

(c) Any changes in (a) and (b) from the previous period.

(d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

148C. An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Puttable Financial Instruments Classified as Net Assets/Equity

148D. **For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):**

(a) **Summary quantitative data about the amount classified as net assets/equity;**

(b) **Its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;**

(c) **The expected cash outflow on redemption or repurchase of that class of financial instruments; and**

(d) **Information about how the expected cash outflow on redemption or repurchase was determined.**

Other Disclosures

149. **An entity shall disclose in the notes:**

(a) **The amount of dividends, or similar distributions, proposed or declared before the financial statements were authorized for issue, but not recognized as a distribution to owners during the period, and the related amount per share; and**

(b) **The amount of any cumulative preference dividends, or similar distributions, not recognized.**

150. **An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:**

(a) **The domicile and legal form of the entity, and the jurisdiction within which it operates;**

(b) **A description of the nature of the entity's operations and principal activities;**

(c) **A reference to the relevant legislation governing the entity's operations;**

(d) **The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable); and**

(e) **If it is a limited life entity, information regarding the length of its life.**

Transitional Provisions

151. [Deleted]

152. [Deleted]

Effective Date

153. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

153A. **Paragraphs 79 and 82 were amended by Improvements to IPSAS issued in January 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact.**

153B. **IPSAS 28 amended paragraph 150 and inserted paragraphs 7A, 95A, and 148D. An entity shall apply the amendments for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 28 for a period beginning before January 1, 2013, the amendments shall also be applied for that earlier period.**

153C. **IPSAS 30 amended paragraphs 75, 129, and 148 and inserted paragraphs 148A–148C. An entity shall apply the amendments for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 30 for a period beginning before January 1, 2013, the amendments shall also be applied for that earlier period.**

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

153E. **Paragraphs 21, 53 and 54 were amended and paragraph 53A added by *Improvements to IPSAS 2014,* issued in January 2015. An entity shall apply those amendments for annual financial statements**

covering periods beginning on or after January 1, 2015. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2015, it shall disclose that fact.

153F. **Paragraphs 151, 152 and 154 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

153G. **IPSAS 35 and IPSAS 38 issued in January 2015, amended paragraphs 4, 7, 12, 88(n), 95(d), 97, 103, 118(c), 134, 135 and 139. An entity shall apply those amendments when it applies IPSAS 35, and IPSAS 38.**

153H. **Paragraphs 29, 44, 70, 73, 74, 109 and 116 were amended, and Appendix A, Qualitative Characteristics of Financial Reporting, was deleted by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

153I. **Paragraphs 5, 6 and 12 were deleted and paragraphs 7 and 97 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

153J. **Paragraph 116 was amended by IPSAS 39 issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

153K. **Paragraph 135 was amended by IPSAS 40, *Public Sector Combinations,* issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

153L. **Paragraphs 7, 79, 82, 101, 102 and 138 were amended and paragraphs 125A, 125B and 125C were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

153M. **Paragraphs 88, 94 and 112–115 were amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.**

153N. **Paragraphs 88, 102 and 107 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

153O. **Paragraphs 7, 92, 94, 101, 125C, 134, and 148 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

153P. **Paragraphs 133, 134, 141, and 143 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

153Q. **Paragraphs 50, 88, 94, and 135 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

154. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSAS) 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.

Withdrawal of IPSAS 1 (2000)

155. This Standard supersedes IPSAS 1, *Presentation of Financial Statements*, issued in 2000.

Appendix A

Qualitative Characteristics of Financial Reporting

This Appendix is an integral part of IPSAS 1.

[Deleted]

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 1.

Revision of IPSAS 1 as a result of the IASB's General Improvements Project 2003

Background

BC1. The IPSASB's IFRS convergence program is an important element in the IPSASB's work program. The IPSASB policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were to "reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 1, issued in January 2000, was based on IAS 1 (revised 1997), which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[2] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 1 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Basis for Conclusions is not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Basis for Conclusions on the IASB's website at www.ifrs.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 1 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 1 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Income

BC7. IAS 1 uses the term income, which is not used in IPSAS 1. IPSAS 1 uses revenue, which corresponds to income in the IAS/IFRS. The term income is broader than revenue, encompassing gains in addition to revenue. The IPSAS do not include a definition of income, and introducing such a definition was not part of the improvements project and was not included in ED 26.

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1 IAS were issued by the IASB's predecessor, the IASC. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Extraordinary *Items*

BC8. IAS 1 prohibits an entity from presenting any item of income or expense as extraordinary items, either on the face of the income statement or in the notes. The IASB concluded that items treated as extraordinary result from the normal business risks faced by an entity, and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement.

BC9. The definition of extraordinary items in IPSAS 1 (2000) differed from the definition included in the previous (1993) version of IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*.[3] This difference reflected the public sector view of what constituted an extraordinary item for public sector entities.

BC10. This Standard does not explicitly preclude the presentation of items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes. IAS 1 prohibits any items of income and expense to be presented as extraordinary items, either on the face of the income statement or in the notes. The IPSASB is of the view that IPSAS should not prohibit entities from disclosing extraordinary items in the notes to, or on the face of, the statement of financial performance. This is because they believe that the disclosure of information about extraordinary items may be consistent with the objectives and qualitative characteristics of financial reporting. However, other members are of the view that there is not a public sector-specific reason to depart from the requirements of IAS 1 in respect of this matter. They also noted that IPSAS 1 does not preclude the separate presentation of items that are distinct from the ordinary activities of a government, either on the face of the financial statements or in the notes, as long as these items are material. They are not convinced that there is a public sector-specific reason to depart from the IASB's prohibition on presenting "extraordinary items" in the financial statements.

Revision of IPSAS 1 as a result of the IASB's Improvements to IFRS issued in 2008

BC11. The IPSASB reviewed the revisions to IAS 1 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 1 as a result of the IASB's Improvements to IFRS issued in 2009

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

Revision of IPSAS 1 as a result of IASB's Improvements to IFRS issued May 2012

BC13. The IPSASB reviewed the revisions to IAS 1 included in the *Improvements to IFRS* issued by the IASB in May 2012 and generally concurred that there was no public sector specific reason for not adopting certain amendments. The IPSASB noted some of the amendments impact IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 34, *Interim Financial Reporting* for which equivalent standards do not exist in IPSAS, and therefore such amendments have been excluded. Further, a portion of the amendments propose changes related to presenting a statement of financial position at the beginning of a preceding period for retrospective changes resulting from accounting policy changes, restatements and reclassifications. Presentation of an opening statement of financial position is currently not a requirement of

3 IPSAS 1 (2000) defined extraordinary items as "revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity." IAS 8 defined "extraordinary items" as "income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly."

IPSAS 1 and introducing changes related to these IASB amendments, is not considered minor and therefore these have been excluded. A further portion of the amendment related to presenting additional comparative information was not considered a minor change and has also been excluded.

Revision of IPSAS 1 as a result of the first four chapters of the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Improvements to IPSAS 2015)*

BC14. Following completion of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) the IPSASB initiated a limited scope project to make changes to IPSAS to reflect the first four chapters of the Conceptual Framework. These chapters address role and authority; objectives and users; qualitative characteristics (QCs) and constraints on information in general purpose financial reports; and the reporting entity. The Conceptual Framework adopted the QC of "faithful representation" rather than "reliability".

BC15. Both the version of IPSAS 1 issued in May 2000 and the revised version of IPSAS 1 issued in December 2006 included an appendix that summarized the QCs and constraints that IPSASB had indirectly adopted. These QCs and constraints were drawn from the former International Accounting Standards Committee's 1989 Conceptual Framework. The IPSASB considered whether this Appendix should be deleted completely or amended to reflect the QCs and constraints in the IPSASB's own Conceptual Framework. The IPSASB decided that it is important that the concepts in the Conceptual Framework are considered directly rather than being mediated through secondary sources. The IPSASB therefore decided to delete Appendix A completely. Consistent with this decision the IPSASB also decided to delete a replication of Appendix A in IPSAS 18, *Segment Reporting*.

BC16. The IPSASB noted that recognition criteria in IPSAS include the words "reliably" or "reliable". Many other IPSAS do not include explicit recognition criteria, but include references to "reliably" and "reliable" in more general guidance on recognition, estimation, allocation and other issues related to measurement. The IPSASB did not consider it appropriate to make piecemeal changes to recognition criteria in advance of a fuller review of recognition criteria and related guidance. The IPSASB therefore decided to include a footnote explaining the meaning of "reliability" in each IPSAS with recognition criteria or related guidance on aspects of measurement. This footnote states that "information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent."

Revision of IPSAS 1 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

Background

BC17. IPSAS 1 included the following definition of a Government Business Enterprise (GBE):

Government Business Enterprise means an entity that has all the following characteristics:

(a) *Is an entity with the power to contract in its own name;*

(b) *Has been assigned the financial and operational authority to carry on a business;*

(c) *Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;*

(d) *Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and*

(e) *Is controlled by a public sector entity.*

BC18. The purpose of the definition was to exclude commercial public sector entities that met the above definition of a GBE from the scope of IPSAS. However, feedback received by the IPSASB indicated that there is a wide range of entities being described as GBEs, some of which clearly do not meet the IPSASB definition of a GBE. There also appeared to be different interpretations of components of the definition.

BC19. To address this problem, in August 2014 the IPSASB issued a Consultation Paper (CP), *The Applicability of IPSAS to Government Business Enterprises and Other Public Sector Entities.* The CP proposed two main approaches to communicate its policy on the public sector entities for which it is developing accounting standards and on GBEs.

BC20. Approach 1 proposed (i) deleting the definition of a GBE; and (ii) providing a high-level description of the characteristics of public sector entities for which IPSAS are intended. This approach had two options: using the IPSASB's current and developing literature (Option 1a) or using Government Finance Statistics (GFS) reporting guidelines and explanatory guidance (Option 1b).

BC21. Under Option 1a, the IPSASB would describe the characteristics of the public sector entities in the following way:

IPSAS are designed to apply to entities that:

(a) Are responsible for the delivery of services[4] to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;

(b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not

BC22. Approach 2 proposed retaining and modifying the definition of a GBE in IPSAS 1 in order to resolve problems in its application, and proposed two options for the definition's modification. Option 2a proposed clarifying the current definition of a GBE and Option 2b proposed narrowing the existing definition of a GBE.

BC23. The IPSASB expressed a unanimous Preliminary View in the CP that Approach 1 was most appropriate because it focuses on the characteristics of public sector entities for which IPSAS are intended. A majority of IPSASB members supported Option 1a because it is a high level, principles-based approach that draws on The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework), and acknowledges the role of regulators and other relevant authorities in determining which entities should apply IPSAS.

BC24. There was strong support from respondents for Option 1a. In general, respondents supported Option 1a for the reasons stated in the previous paragraph. Some respondents also gave additional reasons for supporting Option 1a. These reasons included reliance on the literature of a third-party over which the IPSASB has no control, and the possibility of inconsistency with the IPSASB's own literature, which were identified as risks with Option 1b.

BC25. Respondents' reasons for not supporting Option 1a included:

(a) A lack of resource capacity of regulators in less developed countries, making it difficult to develop detailed criteria for reporting requirements;

(b) Different national regulators using different criteria, which would reduce consistency between jurisdictions; and

(c) The complexities of public sector entities compared with private sector entities that demand a different approach to the determination of reporting requirements.

BC26. In coming to its decision, the IPSASB considered:

[4] Services encompasses goods and services.

(a) The role of regulators in determining the accounting framework for public sector entities in their jurisdiction may vary;

(b) The alignment between IPSAS and GFS reporting guidelines;

(c) The meaning of the term "public sector" with reference to the Preface to the Conceptual Framework;

(d) How holding assets for service potential instead of for cash generation is a distinctive characteristic of public sector entities for which IPSAS are intended; and

(e) Replacing the term government business enterprise with the terms "commercial entities" and "commercial public sector entities", where appropriate.

(f) The role of regulators and other relevant authorities

BC27. IPSASB on the applicability of IPSAS in each jurisdiction. Many jurisdictions develop their own criteria to decide which entities should apply IPSAS. These criteria may vary for legal, economic or fiscal reasons. Therefore, the IPSASB is of the view that a principles-based approach is appropriate, because that approach allows flexibility in each jurisdiction.

Alignment between IPSAS and GFS reporting guidelines

BC28. The IPSASB has a policy of reducing unnecessary differences between IPSAS and GFS reporting guidelines, where appropriate. The IPSASB decided that, on the issue of the applicability of IPSAS, the objectives of financial reporting are better served by developing characteristics that are based on the IPSASB's current and developing literature over which it has control rather than relying on third-party guidelines.

The meaning of the term "public sector"

BC29. According to paragraph 1.8 of the Conceptual Framework, the term "public sector" includes national, regional, state/provincial and local governments. It also includes international governmental organizations. The IPSASB acknowledges that the public sector also includes other entities that seek a return on equity to investors. IPSAS are not intended to apply to the general purpose financial reports of this type of entity. However, when they are included in consolidated financial statements by a controlling entity that applies IPSAS, appropriate adjustments are made to ensure conformity with the economic entity's accounting policies. Therefore, the IPSASB is of the view that the term public sector is related to single and group entities as described in the Conceptual Framework.

Assets held for service potential

BC30. The IPSASB is of the view that the description "are responsible for the delivery of services to the public" provided in the *Preface to International Public Sector Accounting Standards* indicates that IPSAS are intended for public sector entities that hold assets primarily for service potential rather than the generation of cash flows.

Commercial entities and commercial public sector entities

BC31. The IPSASB was of the view that only removing the term "GBE" would leave a vacuum in the IPSASB's literature because the public sector comprises not only entities for which IPSAS are designed, but also commercial entities. Therefore, the IPSASB proposed to replace the term "GBE" with the term "commercial public sector entities" and "commercial entities", where appropriate.

Modification of Preface to International Public Sector Accounting Standards

BC32. In August 2015, the IPSASB issued Exposure Draft (ED) 56, *The Applicability of IPSAS.* The ED reflected the IPSASB's decision to delete the definition of a GBE from IPSAS 1 and from other IPSAS and RPGs. The

IPSASB considered that this approach best serves the public interest because it removes a definition that has been ambiguous and difficult to implement, and describes the characteristics of public sector entities for which IPSAS are designed. The IPSASB proposed to provide this description in the *Preface to International Public Sector Accounting Standards* and to base that proposed description on the IPSASB's literature. Although not subject to the IPSASB's due process, the IPSASB made the revised characteristics available in the Executive Summary of ED 56.

Responses to the ED

BC33. Overall respondents supported the proposed approach and most of the comments related to:

(a) The characteristics of public sector entities in paragraph 10 of the Preface to IPSAS;

(b) The use of wording "commercial entities" and "commercial public sector entities"; and

(c) Other amendments to IPSASB's literature.

Characteristics of public sector entities in paragraph 10 of the Preface to IPSAS

BC34. The characteristics of public sector entities in paragraph 10 of the Preface to IPSAS have been amended to reflect the IPSASB's agreement with respondents' suggestions to increase consistency with the Conceptual Framework, while retaining a principles-based approach to the description of those characteristics.

BC35. Some respondents questioned whether the reference to "capital providers" in paragraph 10(b) should be amended to "equity providers" to be consistent with terminology in the Conceptual Framework. Other respondents indicated that the reference to "capital providers" is not necessary, as it is clear that entities should not have a profit objective. The IPSASB agreed with this suggestion and decided to delete the reference to "capital providers".

Commercial public sector entities

BC36. In the ED, the IPSASB proposed replacing the term "GBE" with the terms "commercial public sector entities" and "commercial entities". The term "commercial entities" was used for economy of expression in those contexts where the IPSASB considered it clear that the discussion was about the public sector. However, some respondents were of the view that having different terms for the same type of entity might create confusion. The IPSASB decided therefore to replace the term "GBE" with one term - "commercial public sector entities" - and acknowledge that regulators can interpret the term taking account of jurisdictional factors.

Other amendments to IPSASB's literature

BC37. Some respondents suggested focusing IPSAS on the public sector entities for which they are designed by removing the wording "other than GBEs" from the IPSASB literature. The ED had proposed the wording "other than commercial entities". The IPSASB agreed with respondents' suggestion and has removed the wording because it is in accordance with the ED's approach of communicating the public sector entities for which IPSAS are designed in a positive way, rather than focusing attention on entities for which IPSAS are not intended, which include commercial public sector entities.

BC38. Other respondents proposed changes to IPSASB's literature that had previously been discussed, including:

- Provide explanation for borderline cases—Some constituents suggested more explanation about the distinction between "pure" public sector entities and "pure" profit seeking entities. For example, a public sector entity might not be profit seeking but may have profits. The IPSASB is of view that regulators may decide which entities apply IPSAS.

- Change of objectives may imply change of the applicability of IPSAS—The IPSASB is of the view that regulators have a role to develop the transitional requirements when public sector entities change their accounting framework.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 1.

Illustrative Financial Statement Structure

IG1. This Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance, as well as for the presentation of changes in net assets/equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of the ways in which the requirements of the Standard for the presentation of the statement of financial position, statement of financial performance, and statement of changes in net assets/equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances. For example, line items of a public sector entity such as a defense department are likely to be significantly different from those for a central bank.

IG2. The illustrative statement of financial position shows one way in which a statement of financial position distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

IG3. The financial statements have been prepared for a national government and the statement of financial performance (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all public sector entities. Refer to this Standard for an example of more generic functional classifications for other public sector entities.

IG4. The examples are not intended to illustrate all aspects of IPSAS. Nor do they comprise a complete set of financial statements, which would also include a cash flow statement, a summary of significant accounting policies, and other explanatory notes.

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

These financial statements are for a public sector entity (national government of Country A). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises:

- Central government ministries; and
- Commercial public sector entities.

Basis of Preparation

The financial statements comply with International Public Sector Accounting Standards for the accrual basis of accounting. The measurement base applied is historical cost adjusted for revaluations of assets.

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

Public Sector Entity—Statement of Financial Position

As at December 31, 20X2

(in thousands of currency units)	**20X2**	**20X1**
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other current assets	X	X
	X	X
Non-current assets		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	X	X
Total assets	**X**	**X**
LIABILITIES		
Current liabilities		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Social benefits	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X

(in thousands of currency units)	20X2	20X1
Non-current liabilities		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Social benefits	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X
Total liabilities	X	X
Net assets	**X**	**X**
NET ASSETS/EQUITY		
Capital contributed by other government entities	X	X
Reserves	X	X
Accumulated surpluses/(deficits)	X	X
Non-controlling interest	X	X
Total net assets/equity	**X**	**X**

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Other compulsory contributions and levies	X	X
Transfers without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total revenue	**X**	**X**
Expenses		

	20X2	20X1
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social benefits	(X)	(X)
Other social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural, and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	**(X)**	**(X)**
Share of surplus of associates*	X	X
Surplus/(deficit) for the period from continuing operations	X	X
Loss for the period from discontinued operations	(X)	(X)
Surplus/(deficit) for the period	**X**	**X**
Attributable to:		
Owners of the controlling entity	X	X
Non-controlling interests	X	X
	X	X

* This means the share of associates' surplus attributable to owners of the associates, i.e., it is after tax and non-controlling interests in the associates.

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)	**20X2**	**20X1**
Revenue		
Taxes	X	X
Other compulsory contributions and levies	X	X
Transfers without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total revenue	**X**	**X**
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
Social benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	**(X)**	**(X)**
Share of surplus of associates	X	X
Surplus/(deficit) for the period from continuing operations	(X)	X
Loss for the period from discontinued operations	(X)	(X)
Surplus/(deficit) for the period	(X)	X
Attributable to:	(X)	X
Owners of the controlling entity	(X)	X
Non-controlling interest	(X)	X

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant, and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.

Public Sector Entity—Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X1

(in thousands of currency units)	Attributable to owners of the controlling entity						
	Contributed Capital	**Other Reserves** [5]	**Translation Reserve**	**Accumulated Surpluses/ (Deficits)**	**Total**	**Non-controlling interest**	**Total net assets/ equity**
Balance at December 31, 20X0	X	X	(X)	X	X	X	X
Changes in accounting policy				(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
Changes in net assets/equity for 20X1							
Gain on property revaluation		X			X	X	X
Loss on revaluation of investments		(X)			(X)	(X)	(X)
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		X	(X)		X	X	X
Surplus for the period				X	X	X	X
Total recognized revenue and expense for the period		X	(X)	X	X	X	X
Balance at December 31, 20X1 carried forward	X	X	(X)	X	X	X	X
Balance at December 31, 20X1 brought forward	X	X	(X)	X	X	X	X

[5] Other reserves are analyzed into their components, if material.

(in thousands of currency units)	Attributable to owners of the controlling entity					Non-controlling interest	Total net assets/ equity
	Contributed Capital	**Other Reserves** [5]	**Translation Reserve**	**Accumulated Surpluses/ (Deficits)**	**Total**		
Changes in net assets/equity for 20X2							
Loss on property revaluation		(X)			(X)	(X)	(X)
Gain on revaluation of investments		X			X	X	X
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		(X)	(X)		(X)	(X)	(X)
Deficit for the period				(X)	(X)	(X)	(X)
Total recognized revenue and expense for the period		(X)	(X)	(X)	(X)	(X)	(X)
Balance at December 31, 20X2	X	X	(X)	X	X	X	X

COMPARISON WITH IAS 1

IPSAS 1 is drawn primarily from IAS 1 (2003) and includes amendments made to IAS 1 as part of the *Improvements to IFRS* issued in May 2008 and April 2009 respectively. At the time of initially issuing this Standard, the IPSASB had not considered the applicability of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 1 did not reflect amendments made to IAS 1 consequent upon the issuing of IFRS 5. The IPSASB has subsequently issued IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* in May 2022. Therefore, all amendments made to IAS 1 from the issuance of IFRS 5 are now reflected in IPSAS 1. The main differences between IPSAS 1 and IAS 1 are as follows:

- Discussion on the application of the going concern concept to public sector entities has been included in IPSAS 1 compared to that in IAS 1.
- IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity, other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms "statement of financial performance," and "net assets/equity" in IPSAS 1. The equivalent terms in IAS 1 are "income statement," and "equity".
- IPSAS 1 does not use the term "income," which in IAS 1 has a broader meaning than the term "revenue."
- IAS 1 defines "International Financial Reporting Standards (IFRS)" to include IFRS, IAS, and SIC/IFRIC Interpretations. IPSAS 1 does not define "International Public Sector Accounting Standards."
- IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph 7).
- IPSAS 1 contains commentary on the responsibility for the preparation of financial statements. IAS 1 does not include the same commentary (paragraphs 19–20).
- IPSAS 1 uses the phrase "the objective of financial statements set out in this Standard" to replace the equivalent phrase "the objective of financial statement set out in the Framework" in IAS 1. This is because an equivalent Framework in IPSAS does not exist.
- IPSAS 1 contains commentary on timeliness of financial statements, because of the lack of an equivalent Framework in IPSAS (paragraph 69).
- IPSAS 1 does not explicitly preclude the presentation of items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes. IAS 1 prohibits any items of income and expense to be presented as extraordinary items either on the face of the income statement or in the notes.
- IPSAS 1 contains a transitional provision allowing the non-disclosure of items that have been excluded from the financial statements due to the application of a transitional provision in another IPSAS (paragraph 151).

IPSAS 2—CASH FLOW STATEMENTS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 7, *Cash Flow Statements*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 7 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 2—CASH FLOW STATEMENTS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 2, *Cash Flow Statements* was issued in May 2000.

Since then, IPSAS 2 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- IPSAS 42, *Social Benefits* (issued January 2019)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (issued December 2006)
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2006)

Table of Amended Paragraphs in IPSAS 2

Paragraph Affected	How Affected	Affected By
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
8	Amended	IPSAS 35 January 2015
16	Deleted	*The Applicability of IPSAS* April 2016
21	Amended	IPSAS 47 May 2023
22	Amended	*Improvements to IPSAS* January 2010 *Improvements to* IPSAS November 2010 IPSAS 42 January 2019 IPSAS 44 May 2022 IPSAS 45 May 2023 IPSAS 47 May 2023
25	Amended	*Improvements to IPSAS* November 2010

Paragraph Affected	How Affected	Affected By
26	Amended	IPSAS 43 January 2022
27	Amended	*Improvements to IPSAS* November 2010
30	Amended	*Improvements to IPSAS* November 2010 IPSAS 35 January 2015
36	Amended	IPSAS 4 December 2006
37	Amended	IPSAS 4 December 2006
40[1]	Deleted	IPSAS 3 December 2006 *Improvements to IPSAS* November 2010
41	Deleted	IPSAS 3 December 2006
42	Amended	*Improvements to IPSAS* November 2010
43	Amended	*Improvements to IPSAS* November 2010
47	Amended	*Improvements to IPSAS* November 2010 IPSAS 37 January 2015
48	Amended	IPSAS 37 January 2015
50A	New	IPSAS 35 January 2015
52A	New	IPSAS 35 January 2015
52B	New	IPSAS 35 January 2015
55	Amended	IPSAS 43 January 2022
Heading above paragraph 55A	New	*Improvements to IPSAS* October 2018
55A	New	*Improvements to IPSAS* October 2018
55B	New	*Improvements to IPSAS* October 2018
55C	New	*Improvements to IPSAS* October 2018
55D	New	*Improvements to IPSAS* October 2018
55E	New	*Improvements to IPSAS* October 2018
61	Amended	IPSAS 37 January 2015
63A	New	*Improvements to IPSAS* January 2010
63B	New	*Improvements to IPSAS* November 2010
63C	New	IPSAS 33 January 2015
63D	New	IPSAS 37 January 2015 IPSAS 35 January 2015
63E	New	*The Applicability of IPSAS* April 2016

[1] Subsequent paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
63F	New	*Improvements to IPSAS* October 2018
63G	New	IPSAS 42 January 2019
63H	New	IPSAS 43 January 2022
63I	New	IPSAS 44 May 2022
63J	New	IPSAS 45 May 2023
63K	New	IPSAS 47 May 2023
64	Amended	IPSAS 33 January 2015
IE	Amended	IPSAS 3 December 2006 IPSAS 42 January 2019 IPSAS 47 May 2023

IPSAS 2—CASH FLOW STATEMENTS

CONTENTS

International Public Sector Accounting Standard 2, *Cash Flow Statements*, is set out in the objective and paragraphs 1–64. All the paragraphs have equal authority. IPSAS 2 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The cash flow statement identifies (a) the sources of cash inflows, (b) the items on which cash was expended during the reporting period, and (c) the cash balance as at the reporting date. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision-making purposes. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities, and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows. The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period from operating, investing, and financing activities.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall prepare a cash flow statement in accordance with the requirements of this Standard, and shall present it as an integral part of its financial statements for each period for which financial statements are presented.**

2. Information about cash flows may be useful to users of an entity's financial statements in (a) assessing the entity's cash flows, (b) assessing the entity's compliance with legislation and regulations (including authorized budgets where appropriate), and (c) making decisions about whether to provide resources to, or enter into transactions with, an entity. They are generally interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a public financial institution. Entities need cash for essentially the same reasons, however different their principal revenue producing activities might be. They need cash to pay for the goods and services they consume, to meet ongoing debt servicing costs, and, in some cases, to reduce levels of debt. Accordingly, this Standard requires all entities to present a cash flow statement.

3. [Deleted]

4. [Deleted]

Benefits of Cash Flow Information

5. Information about the cash flows of an entity is useful in assisting users to predict (a) the future cash requirements of the entity, (b) its ability to generate cash flows in the future, and (c) its ability to fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.

6. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency), and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions and other events.

7. Historical cash flow information is often used as an indicator of the amount, timing, and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

Definitions

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

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Operating activities are the activities of the entity that are not investing or financing activities.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

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.

Cash and Cash Equivalents

9. Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

10. Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts that are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

11. Cash flows exclude movements between items that constitute cash or cash equivalents, because these components are part of the cash management of an entity rather than part of its operating, investing, and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Economic Entity

12. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

13. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

14. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

15. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

16. [Deleted]

Net Assets/Equity

17. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Presentation of a Cash Flow Statement

18. **The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities.**

19. An entity presents its cash flows from operating, investing, and financing activities in a manner that is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity, and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

20. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element classified as a financing activity.

Operating Activities

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded, for example by:

    (a) Taxes (directly and indirectly);

    (b) [Deleted]

    (c) Other compulsory contributions and levies;

    (d) Transfers; or

    (e) Provision of goods or services to another entity in a binding arrangement.

    The amount of the net cash flows also assists in showing the ability of the entity to maintain its operating capability, repay obligations, pay a dividend or similar distribution to its owner, and make new investments, without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies, and fines;

(b) Cash receipts from charges for goods and services provided by the entity;

(c) Cash receipts from grants, transfers and other appropriations or other budget authority made by central government or other public sector entities;

(d) Cash receipts from royalties, fees, commissions, and other revenue;

(da) Cash payments to beneficiaries of social benefit schemes;

(e) Cash payments to other public sector entities to finance their operations (not including loans);

(f) Cash payments to suppliers for goods and services;

(g) Cash payments to and on behalf of employees;

(h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;

(i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts and payments from contracts held for dealing or trading purposes;

(k) Cash receipts or payments from discontinued operations; and

(l) Cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68 of IPSAS 45, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

23. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities, since they relate to the main cash-generating activity of that entity.

24. In some jurisdictions, governments or other public sector entities will appropriate or authorize funds to entities to finance the operations of an entity, and no clear distinction is made for the disposition of those funds between current activities, capital works, and contributed capital. Where an entity is unable to separately identify appropriations or budgetary authorizations into current activities, capital works, and contributed capital, the appropriation or budget authorization should be classified as cash flows from operations, and this fact should be disclosed in the notes to the financial statements.

Investing Activities

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

(a) Cash payments to acquire property, plant, and equipment, intangibles, and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant, and equipment;

(b) Cash receipts from sales of property, plant, and equipment, intangibles, and other long-term assets;

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

(g) Cash payments for futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) Cash receipts from futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing Activities

26. The separate disclosure of cash flows arising from financing activities is important, because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages, and other short or long-term borrowings;

(b) Cash repayments of amounts borrowed; and

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a lease.

Reporting Cash Flows from Operating Activities

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

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

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

28. Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information that (a) may be useful in estimating future cash flows, and (b) not available

under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) From the accounting records of the entity; or

(b) By adjusting operating revenues, operating expenses (interest and similar revenue, and interest expense and similar charges for a public financial institution), and other items in the statement of financial performance for:

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

(ii) Other noncash items; and

(iii) Other items for which the cash effects are investing or financing cash flows.

29. Entities reporting cash flows from operating activities using the direct method are also encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statements.

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

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

(b) Non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed surpluses of associates, and non-controlling interests; and

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

(d) [Deleted]

Reporting Cash Flows from Investing and Financing Activities

31. **An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 32 and 35 are reported on a net basis.**

Reporting Cash Flows on a Net Basis

32. **Cash flows arising from the following operating, investing, or financing activities may be reported on a net basis:**

(a) **Cash receipts collected and payments made on behalf of customers, taxpayers, or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and**

(b) **Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**

33. Paragraph 32(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:

(a) The collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax-sharing arrangement;

(b) The acceptance and repayment of demand deposits of a public financial institution;

(c) Funds held for customers by an investment or trust entity; and

(d) Rents collected on behalf of, and paid over to, the owners of properties.

34. Examples of cash receipts and payments referred to in paragraph 32(b) are advances made for, and the repayment of:

(a) The purchase and sale of investments; and

(b) Other short-term borrowings, for example, those that have a maturity period of three months or less.

35. **Cash flows arising from each of** the **following activities of a public financial institution may be reported on a net basis:**

(a) **Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;**

(b) **The placement of deposits with, and withdrawal of deposits from, other financial institutions; and**

(c) **Cash advances and loans made to customers and the repayment of those advances and loans.**

Foreign Currency Cash Flows

36. **Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.**

37. **The cash flows of a foreign controlled entity shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.**

38. Cash flows denominated in a foreign currency are reported in a manner consistent with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign controlled entity. IPSAS 4 does not permit the use of the exchange rate at reporting date when translating the cash flows of a foreign controlled entity.

39. Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing, and financing activities, and includes the differences, if any, if those cash flows had been reported at end of period exchange rates.

Interest and Dividends or Similar Distributions

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

41. The total amount of interest paid during a period is disclosed in the cash flow statement, whether it has been recognized as an expense in the statement of financial performance or capitalized in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.

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

flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

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

Taxes on Net Surplus

44. **Cash flows arising from taxes on net surplus shall be separately disclosed and shall be classified as cash flows from operating activities, unless they can be specifically identified with financing and investing activities.**

45. Public sector entities are generally exempt from taxes on net surpluses. However, some public sector entities may operate under tax-equivalent regimes, where taxes are levied in the same way as they are on private sector entities.

46. Taxes on net surplus arise from transactions that give rise to cash flows that are classified as operating, investing, or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify, and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the tax cash flow is classified as an investing or financing activity, as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in Controlled Entities, Associates and Joint Ventures

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

48. An entity that reports its interest in an associate or a joint venture using the equity method includes in its cash flow statement the cash flows in respect of its investments in an associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

49. **The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units shall be presented separately and classified as investing activities.**

50. **An entity shall disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:**

(a) **The total purchase or disposal consideration;**

(b) **The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;**

(c) **The amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and**

(d) **The amount of the assets and liabilities, other than cash or cash equivalents, recognized by the controlled entity or operating unit acquired or disposed of, summarized by each major category.**

50A. An investment entity, as defined in IPSAS 35, *Consolidated Financial Statements*, need not apply paragraphs 50(c) or 50(d) to an investment in a controlled entity that is required to be measured at fair value through surplus or deficit. A controlling entity that is not itself an investment entity need not apply paragraphs 50(c) or 50(d) to an investment in a controlled investment entity to the extent that investment is measured at fair value through surplus or deficit.

51. The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operating units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those of acquisitions.

52. The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

52A. Cash flows arising from changes in ownership interests in a controlled entity that do not result in a loss of control shall be classified as cash flows from financing activities, unless the controlled entity is held by an investment entity, as defined in IPSAS 35, or through a controlled investment entity, and is required to be measured at fair value through surplus or deficit.

52B. Changes in ownership interests in a controlled entity that do not result in a loss of control, such as the subsequent purchase or sale by a controlling entity of a controlled entity's equity instruments, are accounted for as equity transactions (see IPSAS 35), unless the controlled entity is held by an investment entity, or through a controlled investment entity, and is required to be measured at fair value through surplus or deficit. Accordingly, the resulting cash flows are classified in the same way as other transactions described in paragraph 26.

53. Assets and liabilities other than cash or cash equivalents of a controlled entity or operating unit acquired or disposed of are only required to be disclosed where the controlled entity or unit had previously recognized those assets or liabilities. For example, where a public sector entity that prepares reports under the cash basis is acquired by another public sector entity, the acquiring entity would not be required to disclose the assets and liabilities (other than cash and cash equivalents) of the entity acquired, as that entity would not have recognized noncash assets or liabilities.

Noncash Transactions

54. **Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.**

55. Many investing and financing activities do not have a direct impact on current cash flows, although they do affect the capital and asset structure of an entity. The exclusion of noncash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period. Examples of noncash transactions are:

(a) The acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a lease;

(b) The conversion of debt to equity.

Changes in Liabilities Arising from Financing Activities

55A. **An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and noncash changes.**

55B. To the extent necessary to satisfy the requirement in paragraph 55A, an entity shall disclose the following changes in liabilities arising from financing activities:

(a) Changes from financing cash flows;

(b) Changes arising from obtaining or losing control of controlled entities or other operations;

(c) The effect of changes in foreign exchange rates;

(d) Changes in fair values; and

(e) Other changes.

55C. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities. In addition, the disclosure requirement in paragraph 55A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

55D. One way to fulfil the disclosure requirement in paragraph 55A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 55B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the cash flow statement.

55E. If an entity provides the disclosure required by paragraph 55A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

Components of Cash and Cash Equivalents

56. **An entity shall disclose the components of cash and cash equivalents, and shall present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.**

57. In view of the variety of cash management practices and banking arrangements around the world, and in order to comply with IPSAS 1, an entity discloses the policy that it adopts in determining the composition of cash and cash equivalents.

58. The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other Disclosures

59. **An entity shall disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.**

60. There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Examples include cash and cash equivalent balances held by a

controlled entity that operates in a country where exchange controls or other legal restrictions apply, when the balances are not available for general use by the controlling entity or other controlled entities.

61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged, and may include:

(a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and

(b) [Deleted]

(c) The amount and nature of restricted cash balances.

62. Where appropriations or budget authorizations are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity's activities or programs and the government's budgetary information. Refer to IPSAS 1 for a brief discussion of the comparison of actual and budgeted figures.

Effective Date

63. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2001. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2001, it shall disclose that fact.**

63A. **Paragraph 22 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact and apply paragraph 83A of IPSAS 17.**

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

63C. **Paragraph 64 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

63D. **IPSAS 35 and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 8 and 30(b), 47, 48 and 61(b), and added paragraphs 50A, 52A and 52B. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

63E. **Paragraphs 3, 4 and 16 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

63F. **Paragraphs 55A–55E were added by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods.**

63G. **Paragraph 22 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.**

63H. **Paragraphs 26 and 55 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

63I. **Paragraph 22 was amended by IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* issued in May 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

63J. **Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

63K. **Paragraphs 21 and 22 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

64. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 2.

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

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

Revision of IPSAS 2 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC2. 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 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 2 as a result of *Improvements to IPSAS, 2018*

BC3. The IPSASB reviewed the revisions to IAS 7 included in the narrow scope amendments titled *Disclosure Initiative* (Amendments to IAS 7) issued by the IASB in January 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments. The IPSASB acknowledged that entities would need time to implement this amendment, and therefore set an effective date for this amendment of January 1, 2021, two years later than the other amendments in *Improvements to IPSAS, 2018.*

Illustrative Examples

These examples accompany, but are not part of, IPSAS 2.

Cash Flow Statement (For an Entity Other Than a Financial Institution)

Direct Method Cash Flow Statement (paragraph 27(a))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2

(in thousands of currency units)	**20X2**	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Social benefits	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	X	X
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	(X)	(X)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)
Net cash flows from financing activities	X	X
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	X	X
Cash and cash equivalents at end of period	X	X

Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

(in thousands of currency units)	**20X2**	**20X1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) *Property, Plant and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

(c) *Reconciliation of Liabilities Arising from Financing Activities to Surplus/(Deficit)*

(in thousands of currency units)	**20X2**	**20X1**
Surplus/(deficit)	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in social benefits liabilities	X	X
Increase in provisions relating to employee costs	X	X

(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

(d) *Reconciliation of Liabilities Arising from Financing Activities*

	20X1	Cash flows	Non-cash changes		20X2
			Acquisition	New leases	
Long-term borrowings	X	X	X	X	X
Lease liabilities	X	X	X	X	X
Long-term debt	X	X	X	X	X

Indirect Method Cash Flow Statement (paragraph 27(b))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2

(in thousands of currency units)	**20X2**	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit)	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in social benefits liabilities	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

(in thousands of currency units)	20X2	20X1
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) *Property, Plant and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

(c) *Reconciliation of Liabilities Arising from Financing Activities*

	20X1	Cash flows	Non-cash changes		20X2
			Acquisition	New leases	
Long-term borrowings	X	X	X	X	X
Lease liabilities	X	X	X	X	X
Long-term debt	X	X	X	X	X

Reconciliation of Liabilities Arising from Financing Activities

1. This example illustrates one possible way of providing the disclosures required by paragraphs 55A–55E.
2. The example shows only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IPSAS 1, *Presentation of Financial Statements*.

	20X1	Cash flows	Non-cash changes			20X2
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	X	X	X	X	X	X
Short-term borrowings	X	X	X	X	X	X
Lease liabilities	X	X	X	X	X	X
Assets held to hedge long-term borrowings	X	X	X	X	X	X
Total liabilities from financing activities	X	X	X	X	X	X

COMPARISON WITH IAS 7

IPSAS 2, *Cash Flow Statements* is drawn primarily from IAS 7, *Cash Flow Statements* and includes an amendment made to IAS 7 as part of the *Improvements* to IFRS issued in April 2009. The main differences between IPSAS 2 and IAS 7 are as follows:

- IPSAS 2 uses different terminology, in certain instances, from IAS 7. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 2. The equivalent terms in IAS 7 are "income," "income statement," and "equity."
- IPSAS 2 contains a different set of definitions of technical terms from IAS 7 (paragraph 8).
- In common with IAS 7, IPSAS 2 allows either the direct or indirect method to be used to present cash flows from operating activities. Where the direct method is used to present cash flows from operating activities, IPSAS 2 encourages disclosure of a reconciliation of surplus or deficit to operating cash flows in the notes to the financial statements (paragraph 29).
- The Illustrative Examples accompanying IPSAS 2 do not include an illustration of a Cash Flow Statement for a financial institution.

IPSAS 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 8 (Revised December 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 8 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) ® Foundation.

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IPSAS 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 3.

Since then, IPSAS 3 has been amended by the following IPSAS:

- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)

Table of Amended Paragraphs in IPSAS 3

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
5	Deleted	*The Applicability of IPSAS* April 2016
6	Deleted	*The Applicability of IPSAS* April 2016
7	Amended	*Improvements to IPSAS* April 2016
9	Amended	*Improvements to IPSAS* January 2010
10	Amended	*Improvements to IPSAS* January 2010 Improvements to IPSAS April 2016
11	Amended	*Improvements to IPSAS* January 2010
12	Amended	*Improvements to IPSAS* April 2016
13	Deleted	*Improvements to IPSAS* April 2016
14	Amended	*Improvements to IPSAS* January 2010 *Improvements to IPSAS* April 2016
15	Amended	*Improvements to IPSAS* April 2016
17	Amended	*Improvements to IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
22	Amended	IPSAS 31 January 2010 IPSAS 45 May 2023
34	Amended	*Improvements to IPSAS* April 2016
57	Amended	IPSAS 46 May 2023
59A	New	*Improvements to IPSAS* January 2010
59B	New	IPSAS 33 January 2015
59C	New	*Improvements to IPSAS* April 2016
59D	New	*The Applicability of IPSAS* April 2016
59E	New	IPSAS 45 May 2023
59F	New	IPSAS 46 May 2023
60	Amended	IPSAS 33 January 2015
IG14	Amended	IPSAS 45 May 2023
IG15	Amended	IPSAS 45 May 2023
IG16	Amended	IPSAS 45 May 2023
IG17	Amended	IPSAS 45 May 2023

December 2006

IPSAS 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

CONTENTS

International Public Sector Accounting Standard 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, is set out in paragraphs 1–61. All the paragraphs have equal authority. IPSAS 3 should be read in the context of its objective, the Basis for Conclusions, the *Preface to the International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3 provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the (a) accounting treatment and disclosure of changes in accounting policies, (b) changes in accounting estimates, and (c) the corrections of errors. This Standard is intended to enhance the relevance and faithful representativeness of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IPSAS 1, *Presentation of Financial Statements*.

Scope

3. **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.**

4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are not considered in this Standard, as they are not relevant for many public sector entities. International or national accounting standards dealing with income taxes contain guidance on the treatment of tax effects.

5. [Deleted]

6. [Deleted]

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

   <u>Accounting policies</u> are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.

   A <u>change in accounting estimate</u> is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

   <u>Impracticable</u> Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

   (a) **The effects of the retrospective application or retrospective restatement are not determinable;**

   (b) **The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or**

   (c) **The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:**

      (i) **Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and**

(ii) **Would have been available when the financial statements for that prior period were authorized for issue from other information.**

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that:

(a) **Was available when financial statements for those periods were authorized for issue; and**

(b) **Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are:

(a) **Applying the new accounting policy to transactions, other events, and conditions occurring after the date as at which the policy is changed; and**

(b) **Recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.**

Retrospective application is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement, and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

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.

Materiality

8. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Accounting Policies

Selection and Application of Accounting Policies

9. **When an IPSAS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard.**

10. IPSAS set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and faithfully representative information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSAS to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.

11. IPSAS are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of IPSAS. Guidance that is an integral part of IPSAS is mandatory. Guidance that is not an integral part of IPSAS does not contain requirements for financial statements.

12. **In the absence of an IPSAS that specifically applies to a transaction, other event, or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is relevant to the accountability and decision-making needs of users, faithfully represents the financial position, financial performance, and cash flows of the entity, meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability and takes account of the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics.**

13. [Deleted]

14. **In making the judgment, described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in the following order:**

    (a) **The requirements in IPSAS dealing with similar and related issues; and**

    (b) **The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.**

15. **In making the judgment described in paragraph 12, management may also consider (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted public or private sector practices, but only to the extent that these do not conflict with the sources in paragraph 14. Examples of such pronouncements include pronouncements of the IASB, including IFRS, and Interpretations issued by the IASB's IFRS Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).**

Consistency of Accounting Policies

16. **An entity shall select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless an IPSAS specifically requires or permits categorization of items for which different policies may be appropriate. If an IPSAS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.**

Changes in Accounting Policies

17. **An entity shall change an accounting policy only if the change:**

    (a) **Is required by an IPSAS; or**

    (b) **Results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events, and conditions on the entity's financial position, financial performance, or cash flows.**

18. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance, and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria in paragraph 17.

19. **A change from one basis of accounting to another basis of accounting is a change in accounting policy.**

20. **A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy.**

21. **The following are not changes in accounting policies:**

(a) **The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and**

(b) **The application of a new accounting policy for transactions, other events, or conditions that did not occur previously or that were immaterial.**

22. **The initial application of a policy to revalue assets in accordance with IPSAS 31, *Intangible Assets* or IPSAS 45, *Property, Plant, and Equipment* is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 31 or IPSAS 45, rather than in accordance with this Standard.**

23. Paragraphs 24−36 do not apply to the change in accounting policy described in paragraph 22.

Applying Changes in Accounting Policies

24. **Subject to paragraph 28:**

(a) **An entity shall account for a change in accounting policy resulting from the initial application of an IPSAS in accordance with the specific transitional provisions, if any, in that Standard; and**

(b) **When an entity changes an accounting policy upon initial application of an IPSAS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**

25. For the purpose of this Standard, early application of a Standard is not a voluntary change in accounting policy.

26. In the absence of an IPSAS that specifically applies to a transaction, other event, or condition, management may, in accordance with paragraph 15, apply an accounting policy from (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted public or private sector practices, but only to the extent that these are consistent with paragraph 15. Examples of such pronouncements include pronouncements of the IASB, including the *Framework for the Preparation and Presentation of Financial Statements*, IFRS, and Interpretations issued by the IFRIC or the former SIC. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective Application

27. **Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

Limitations on Retrospective Application

28. **When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

29. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.**

30. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

31. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated surpluses or deficits. However, the adjustment may be made to another component of net assets/equity (for example, to comply with an IPSAS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities, and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 55–58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

33. **When initial application of an IPSAS (a) has an effect on the current period or any prior period, (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity shall disclose:**

    (a) **The title of the Standard;**

    (b) **When applicable, that the change in accounting policy is made in accordance with its transitional provisions;**

    (c) **The nature of the change in accounting policy;**

    (d) **When applicable, a description of the transitional provisions;**

    (e) **When applicable, the transitional provisions that might have an effect on future periods;**

    (f) **For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

    (g) **The amount of the adjustment relating to periods before those presented, to the extent practicable; and**

    (h) **If retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

    Financial statements of subsequent periods need not repeat these disclosures.

34. **When a voluntary change in accounting policy (a) has an effect on the current period or any prior period, (b) would have an effect on that period, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity shall disclose:**

    (a) **The nature of the change in accounting policy;**

(b) **The reasons why applying the new accounting policy provides faithfully representative and more relevant information;**

(c) **For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

(d) **The amount of the adjustment relating to periods before those presented, to the extent practicable; and**

(e) **If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

35. **When an entity has not applied a new IPSAS that has been issued but is not yet effective, the entity shall disclose:**

(a) **This fact; and**

(b) **Known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.**

36. In complying with paragraph 35, an entity considers disclosing:

(a) The title of the new IPSAS;

(b) The nature of the impending change or changes in accounting policy;

(c) The date by which application of the Standard is required;

(d) The date as at which it plans to apply the Standard initially; and

(e) Either:

(i) A discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or

(ii) If that impact is not known or reasonably estimable, a statement to that effect.

Changes in Accounting Estimates

37. As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:

(a) Tax revenue due to government;

(b) Bad debts arising from uncollected taxes;

(c) Inventory obsolescence;

(d) The fair value of financial assets or financial liabilities;

(e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in, depreciable assets, or the percentage completion of road construction; and

(f) Warranty obligations.

38. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability[1].

39. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

40. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

41. **The effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, shall be recognized prospectively by including it in surplus or deficit in:**

(a) **The period of the change, if the change affects the period only; or**

(b) **The period of the change and future periods, if the change affects both.**

42. **To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability, or net assets/equity item in the period of change.**

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit, and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

Disclosure

44. **An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**

45. **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity shall disclose that fact.**

Errors

46. Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with IPSAS if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47–52).

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

47. **Subject to paragraph 48, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:**

    (a) **Restating the comparative amounts for prior period(s) presented in which the error occurred; or**

    (b) **If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.**

Limitations of Retrospective Restatement

48. **A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**

49. **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**

50. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

51. The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including historical summaries of financial data, is also restated as far back as is practicable.

52. When it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 50, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities, and net assets/equity arising before that date. Paragraphs 55–58 provide guidance on when it is impracticable to correct an error for one or more prior periods.

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

54. **In applying paragraph 47, an entity shall disclose the following:**

    (a) **The nature of the prior period error;**

    (b) **For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;**

    (c) **The amount of the correction at the beginning of the earliest prior period presented; and**

    (d) **If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

    Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in Respect of Retrospective Application and Retrospective Restatement

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior

period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56–58, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to re-create the information.

56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events, or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event, or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event, or condition occurred.

57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:

(a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and

(b) Would have been available when the financial statements for that prior period were authorized for issue;

from other information. For some types of estimates (e.g., a fair value measurement that uses significant unobservable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognized, measured, or disclosed in a prior period. For example, when an entity corrects a prior period error in classifying a government building as an investment property (the building was previously classified as property, plant, and equipment), it does not change the basis of classification for that period, if management decided later to use that building as an owner-occupied office building. In addition, when an entity corrects a prior period error in calculating its liability for provision of cleaning costs of pollution resulting from government operations in accordance with IPSAS 19, it disregards information about an unusually large oil leak from a naval supply ship during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective Date

59. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

59A. **Paragraphs 9, 11, and 14 were amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged.**

59B. **Paragraph 60 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier**

application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.

59C. **Paragraphs 7, 10, 12, 14, 15, 17 and 34 were amended, and paragraph 13 was deleted by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017 it shall disclose that fact.**

59D. **Paragraphs 5 and 6 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

59E. **Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

59F. **Paragraph 57 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

60. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Withdrawal of IPSAS 3 (2000)

61. This Standard supersedes IPSAS 3*, Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*, issued in 2000.

Appendix

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 3.

Revision of IPSAS 3 as a result of the IASB's General Improvements Project

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.[2] The International Accounting Standards (IAS) were issued by the IASB's predecessor—the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS. The Comparison with IAS 8 references the December 2003 version of IAS 8 and not any other.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS2 as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 3, issued in January 2000, was based on IAS 8 (Revised 1993), Net Profit or Loss of the Period, Fundamental Errors and Changes in Accounting Policies, which was reissued in December 2003 as IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[3] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 8 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IPSAS 3 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities

[2] The International Accounting Standards (IAS) were issued by the IASB's predecessor—the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

[3] The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 3 as a result of the IASB's Improvements to IFRS issued in 2008

BC7. The IPSASB reviewed the revisions to IAS 8 included in *the Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 3 as a result of the publication of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Improvements to IPSAS 2015)*

BC8. Following the publication of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) the IPSASB initiated a limited scope project to make changes to IPSAS to reflect the first four chapters. These chapters address role and authority; objectives and users; qualitative characteristics (QCs) and constraints on information in general purpose financial reports; and the reporting entity. The IPSASB proposed these amendments in ED 58, *Improvements to IPSAS 2015*.

BC9. Paragraph 12 of IPSAS 3 provides the first level requirement for the development of an accounting policy when there is not an IPSAS that specifically applies to a transaction, other event or condition. The 2006 version of IPSAS 1 specified that management should use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. The IPSASB decided to replace the reference to reliability with faithful representation in order to ensure consistency with the Conceptual Framework. Consistent with its decision not to distinguish fundamental and enhancing QCs the IPSASB decided to acknowledge the other QCs and the constraints on information included in general purpose financial reports in paragraph 12. A respondent to ED 58 considered that references throughout the suite of IPSAS should be modified to refer to the full set of QCs and constraints, The Conceptual Framework states that each of the QCs is integral to, and works with the other QCs, to provide information in general purpose financial reports that is useful for achieving the objectives of financial reporting. However, this interaction does not preclude individual QCs having more or less importance, dependent upon specific circumstances, and therefore the IPSASB concluded that there should not be a reference to all QCs and constraints every time one or more QCs is referenced.

BC10. IPSAS 3 had also listed a number of attributes of reliability, including economic substance, neutrality, prudence, and completeness. The IPSASB considered whether these attributes should be explicitly stated in the revised IPSAS 3. The IPSASB acknowledges the value of these attributes, but noted that whereas they had been specifically referenced and explained in Appendix A to IPSAS 1 they are not specifically identified as QCs in the Conceptual Framework.

BC11. The Conceptual Framework explains that "faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error", and further that "information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form." Therefore substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional QC because it is already embedded in the notion of faithful representation.

BC12. The IPSASB took the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Consequently the IPSASB concluded that there is no need to explicitly refer to economic substance, neutrality, prudence, and completeness in paragraph 12.

BC13. Paragraph 14 provides the sources that management shall refer to, and consider the applicability of, when developing an accounting policy when there is not an IPSAS that specifically applies to a transaction, other event or condition. The IPSASB considered whether management should be directed to the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other IPSAS or the Conceptual Framework. The IPSASB acknowledged that IPSAS have not yet been updated to reflect definitions, recognition and measurement criteria in the Conceptual Framework. However the Conceptual Framework reflects the IPSASB's most up-to-date thinking and the IPSASB concluded that management should be directed to this source.

BC14. Paragraph 15 permits consideration of the most recent pronouncements of other standard-setting bodies, to the extent that they do not conflict with sources drawn from IPSAS, in making judgments on the development and application of an accounting policy. The IPSASB considered whether it should retain the examples of pronouncements of the International Accounting Standards Board (IASB). Noting that the revision of the IASB's Conceptual Framework had not been completed at the time, the IPSASB took the view that there are differences between the IPSASB's Conceptual Framework and the IASB's developing revision of its Conceptual Framework. Consequently the development and application of accounting policies based on the IASB's Conceptual Framework might not always be appropriate in the public sector. In response to comments by a respondent to ED 58, the IPSASB also reaffirmed that the IPSASB's Conceptual Framework is not subordinate to the IASB's Conceptual Framework. The IPSASB did consider that the other examples of IASB pronouncements in paragraph 15—IFRS, and Interpretations issued by the IASB's IFRS Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC)—are useful and should be retained.

Revision of IPSAS 3 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC15. 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 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.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 3.

Retrospective Restatement of Errors

IG1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of CU4 6,500 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2.

IG2. The entity's accounting records for 20X2 show revenue from taxation of CU60,000 (including the CU6,500 taxation that should have been recognized in opening balances), and expenses of CU86,500.

IG3. In 20X1, the entity reported:

	CU
Revenue from taxation	34,000
User charges	3,000
Other operating revenue	30,000
Total revenue	67,000
Expenses	(60,000)
Surplus	7,000

IG4. 20X1 opening accumulated surplus was CU20,000, and closing accumulated surplus was CU27,000.

IG5. The entity had no other revenue or expenses.

IG6. The entity had CU5,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity Statement of Financial Performance

	20X2	(restated) 20X1
	CU	CU
Revenue from taxation	53,500	40,500
User charges	4,000	3,000
Other operating revenue	40,000	30,000
Total revenue	97,500	73,500
Expenses	(86,500)	(60,000)
Surplus	11,000	13,500

[4] In these examples, monetary amounts are denominated in "currency units" (CU).

Public Sector Entity X Statement of Changes in Equity

	Contributed capital	Accumulated Surpluses	Total
	CU	CU	CU
Balance at 31 December 20X0	5,000	20,000	25,000
Surplus for the year ended December 31, 20X1 as restated	–	13,500	13,500
Balance at 31 December 20X1	5,000	33,500	38,500
Surplus for the year ended 31 December 20X2	–	11,000	11,000
Balance at 31 December 20X2	5,000	44,500	49,500

Extracts from Notes to the Financial Statements

1. Revenue from taxation of CU6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 20X2.

	Effect on 20X1
	CU
Increase revenue	6,500
Increase in surplus	6,500
Increase in debtors	6,500
Increase in net assets/equity	6,500

Change in Accounting Policy with Retrospective Application

IG7. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station that is under construction. In previous periods, the entity had capitalized such costs. The entity has now decided to expense, rather than capitalize them. Management judges that the new policy is preferable, because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable.

IG8. The entity capitalized borrowing costs incurred of CU2,600 during 20X1 and CU5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.

IG9. The accounting records for 20X2 show surplus before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20X2).

IG10. The entity has not recognized any depreciation on the power station because it is not yet in use.

IG11. In 20X1, the entity reported:

	CU
Surplus before interest	18,000
Interest expense	–
Surplus	18,000

IG12. 20X1 opening accumulated surpluses was CU20,000 and closing accumulated surpluses was CU38,000.

IG13. The entity had CU10,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity Statement of Financial Performance

	20X2	(restated) 20X1
	CU	CU
Surplus before interest	30,000	18,000
Interest expense	(3,000)	(2,600)
Surplus	27,000	15,400

Public Sector Entity Statement of Changes in Net Assets/Equity

	Contributed capital	(restated) Accumulated Surplus	Total
	CU	CU	CU
Balance at 31 December 20X0 as previously reported	10,000	20,000	30,000
Change in accounting policy with respect to the capitalization of interest (Note 1)	–	(5,200)	(5,200)
Balance at 31 December 20X0 as restated	10,000	14,800	24,800
Surplus for the year ended 31 December 20X1 (restated)	–	15,400	15,400
Balance at 31 December 20X1	10,000	30,200	40,200
Surplus for the year ended 31 December 20X2	–	27,000	27,000
Closing at 31 December 20X2	10,000	57,200	67,200

Extracts from Notes to the Financial Statements

1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs related to a hydro-electric power station. Previously, the entity capitalized such costs. They are now written off as expenses as incurred. Management judges that this policy provides faithfully representative and more relevant information, because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable. This change in accounting policy has been accounted for retrospectively, and the comparative statements for 20X1 have been restated. The effect of the change on 20X1 is tabulated below. Opening accumulated surpluses for 20X1 have been reduced by CU5,200, which is the amount of the adjustment relating to periods prior to 20X1.

Effect on 20X1	CU
(Increase) in interest expense	(2,600)
(Decrease) in surplus	(2,600)
Effect on periods prior to 20X1	
(Decrease) in surplus	(5,200)
(Decrease) in assets in the course of construction and in accumulated surplus	(7,800)

Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

IG14. During 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the current value model.

IG15. In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their current operational values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

IG16. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a historical cost model to a current value model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

IG17. Additional information:

	CU
Property, plant, and equipment	
Cost	25,000
Depreciation	(14,000)
Carrying amount	11,000

Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey	
Valuation	17,000
Estimated residual value	3,000
Average remaining assets life (years)	7
Depreciation expense on existing property, plant, and equipment for 20X2 (new basis)	2,000

Extracts from Notes to the Financial Statements

1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the current value model. Management takes the view that this policy provides faithfully representative and more relevant information, because it deals more accurately with the components of property, plant, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly, the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant, and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.

COMPARISON WITH IAS 8

IPSAS 3*, Accounting Policies, Changes in Accounting Estimates and Errors*, is drawn primarily from IAS 8 (2003), *Accounting Policies, Changes in Accounting Estimates and Errors* and includes amendments made to IAS 8 as part of the *Improvements to IFRS* issued in May 2008. The main differences between IPSAS 3 and IAS 8 are as follows:

- IPSAS 3 uses different terminology, in certain instances, from IAS 8. The most significant examples are the use of the terms “statement of financial performance,” “accumulated surplus or deficit,” and “net assets/equity” in IPSAS 3. The equivalent terms in IAS 8 are “income statement,” “retained earnings,” and “equity.”
- IPSAS 3 does not use the term “income,” which in IAS 8 has a broader meaning than the term “revenue.”
- IPSAS 3 contains a different set of definitions of technical terms from IAS 8 (paragraph 7).
- IPSAS 3 has a similar hierarchy to IAS 8.
- IPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. IAS 8 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.

IPSAS 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 21 (Revised 2003, as amended in 2005), *The Effects of Changes in Foreign Exchange Rates*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 21 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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Internet: www.ifrs.org

IPSAS 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 4.

In April 2008 the IPSASB issued a revised IPSAS 4.

Since then, IPSAS 4 has been amended by the following IPSAS:

- IPSAS 48, *Transfer Expenses* (issued May 2023)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 43*, Leases* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41*, Financial Instruments* (issued August 2018)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)

Table of Amended Paragraphs in IPSAS 4

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Amended	IPSAS 29 January 2010 IPSAS 37 January 2015 IPSAS 41 August 2018
4	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
5	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
6	Deleted	*The Applicability of IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
7	Deleted	*The Applicability of IPSAS* April 2016
10	Amended	IPSAS 37 January 2015
11	Amended	IPSAS 47 May 2023
13	Amended	IPSAS 37 January 2015
17	Amended	IPSAS 43 January 2022 IPSAS 48 May 2023
21	Amended	IPSAS 37 January 2015
22	Amended	IPSAS 35 January 2015
27	Amended	IPSAS 46 May 2023
28	Amended	IPSAS 45 May 2023
31	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
36	Amended	IPSAS 45 May 2023
38	Amended	IPSAS 37 January 2015
47	Amended	IPSAS 35 January 2015
50	Amended	IPSAS 37 January 2015
51	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015
53	Amended	IPSAS 35 January 2015
55	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015
57	Amended	IPSAS 37 January 2015
57A	New	IPSAS 37 January 2015
57B	New	IPSAS 37 January 2015
57C	New	IPSAS 37 January 2015
57D	New	IPSAS 37 January 2015
58	Amended	IPSAS 37 January 2015
61	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
67	Deleted	IPSAS 33 January 2015
68	Deleted	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
69	Deleted	IPSAS 33 January 2015
70	Deleted	IPSAS 33 January 2015
Heading above paragraph 70A	New	*Improvements to IPSAS* October 2018
70A	New	*Improvements to IPSAS* October 2018
70B	New	*Improvements to IPSAS* October 2018
71A	New	IPSAS 33 January 2015
71B	New	IPSAS 35 January 2015 IPSAS 37 January 2015
71C	New	*The Applicability of IPSAS* April 2016
71D	Amended	*COVID-19: Deferral of Effective Dates* November 2020
71E	New	*Improvements to IPSAS* October 2018
71F	New	IPSAS 43 January 2022
71G	New	IPSAS 45 May 2023
71H	New	IPSAS 46 May 2023
71I	New	IPSAS 47 May 2023
71J	New	IPSAS 48 May 2023
72	Amended	IPSAS 33 January 2015
Headings above paragraph A1	New	*Improvements to IPSAS* October 2018
A1	New	*Improvements to IPSAS* October 2018
A2	New	*Improvements to IPSAS* October 2018
A3	New	*Improvements to IPSAS* October 2018
Heading above paragraph A4	New	*Improvements to IPSAS* October 2018
A4	New	*Improvements to IPSAS* October 2018
A5	Amended	*Improvements to IPSAS* October 2018 IPSAS 46 May 2023
A6	New	*Improvements to IPSAS* October 2018
Heading above paragraph A7	New	*Improvements to IPSAS* October 2018
A7	New	*Improvements to IPSAS* October 2018
A8	New	*Improvements to IPSAS* October 2018
A9	New	*Improvements to IPSAS* October 2018

Paragraph Affected	How Affected	Affected By
Headings above paragraph IE1	New	*Improvements to IPSAS* October 2018
IE1	New	*Improvements to IPSAS* October 2018
Heading above paragraph IE2	New	*Improvements to IPSAS* October 2018
IE2	New	*Improvements to IPSAS* October 2018
IE3	New	*Improvements to IPSAS* October 2018
IE4	Amended	*Improvements to IPSAS* October 2018 IPSAS 45 May 2023
Heading above paragraph IE5	New	*Improvements to IPSAS* October 2018
IE5	New	*Improvements to IPSAS* October 2018
IE6	New	*Improvements to IPSAS* October 2018
IE7	Amended	*Improvements to IPSAS* October 2018 IPSAS 47 May 2023
IE8	New	*Improvements to IPSAS* October 2018
IE9	New	*Improvements to IPSAS* October 2018
IE10	New	*Improvements to IPSAS* October 2018
Heading above paragraph IE11	New	*Improvements to IPSAS* October 2018
IE11	New	*Improvements to IPSAS* October 2018
IE12	New	*Improvements to IPSAS* October 2018
IE13	New	*Improvements to IPSAS* October 2018
IE14	New	*Improvements to IPSAS* October 2018
IE15	New	*Improvements to IPSAS* October 2018
Heading above paragraph IE16	New	*Improvements to IPSAS* October 2018
IE16	New	*Improvements to IPSAS* October 2018
IE17	New	*Improvements to IPSAS* October 2018
IE18	New	*Improvements to IPSAS* October 2018
IE19	New	*Improvements to IPSAS* October 2018

April 2008

IPSAS 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

CONTENTS

International Public Sector Accounting Standard 4, *The Effects of Changes in Foreign Exchange Rates*, is set out in paragraphs 1–73. All the paragraphs have equal authority. IPSAS 4 should be read in the context of its objective, the Basis for Conclusions, the *Preface to the International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity, and how to translate financial statements into a presentation currency.

2. The principal issues are (a) which exchange rate(s) to use, and (b) how to report the effects of changes in exchange rates in the financial statements.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:**

   (a) **In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IPSAS 41, *Financial Instruments*;**

   (b) **In translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, or by the equity method; and**

   (c) **In translating an entity's financial performance and financial position into a presentation currency.**

4. IPSAS 41 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of IPSAS 41 (e.g., some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

5. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. IPSAS 41 applies to hedge accounting.

6. [Deleted]

7. [Deleted]

8. This Standard applies to the presentation of an entity's financial statements in a foreign currency, and sets out requirements for the resulting financial statements to be described as complying with IPSAS. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.

9. This Standard does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see IPSAS 2, *Cash Flow Statements*).

Definitions

10. **The following terms are used in this Standard with the meanings specified:**

    <u>Closing rate</u> is the spot exchange rate at the reporting date.

    <u>Exchange difference</u> is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

    <u>Exchange rate</u> is the ratio of exchange for two currencies.

    <u>Foreign currency</u> is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a controlled entity, associate, joint arrangement, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets/equity of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

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.

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

    (a) The currency:

        (i) That revenue is raised from, such as taxes, grants, transfers, and fines;

        (ii) That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

        (iii) Of the country whose competitive forces and regulations mainly determine the sale prices of its goods and services.

    (b) The currency that mainly influences labor, material, and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled).

12. The following factors may also provide evidence of an entity's functional currency:

    (a) The currency in which funds from financing activities (i.e., issuing debt and equity instruments) are generated.

    (b) The currency in which receipts from operating activities are usually retained.

13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate, or joint arrangement):

    (a) Whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when a department of defense has a number of overseas bases that conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity, with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a public university that operates under the management and direction of the domestic campus. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incur expenses, generate revenue, and perhaps arrange borrowings, all substantially in its local currency. Some examples of government-owned foreign operations that may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards, and broadcasting operations. Such entities may be established as commercial public sector entities.

(b) Whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

(c) Whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(d) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

14. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events, and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 11 before considering the indicators in paragraphs 12 and 13, which are designed to provide additional supporting evidence to determine an entity's functional currency.

15. An entity's functional currency reflects the underlying transactions, events, and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events, and conditions.

16. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IPSAS 10, *Financial Reporting in Hyperinflationary Economies*. An entity cannot avoid restatement in accordance with IPSAS 10 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its controlling entity).

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; lease liabilities; and cash dividends or similar distributions that are recognized as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services; transfer right assets; goodwill; intangible assets; inventories; property, plant, and equipment; right-of-use assets; and provisions that are to be settled by the delivery of a non-monetary asset.

Net Investment in a Foreign Operation

18. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs 37 and 38. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

19. The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 18 may be any controlled entity of the economic entity. For example, an entity has two controlled entities, A and B. Controlled entity B is a foreign operation. Controlled entity A grants a loan to controlled entity B.

Controlled entity A's loan receivable from controlled entity B would be part of the controlled entity A's net investment in controlled entity B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if controlled entity A were itself a foreign operation.

Summary of the Approach Required by This Standard

20. In preparing financial statements, each entity – whether a stand-alone entity, an entity with foreign operations (such as a controlling entity), or a foreign operation (such as a controlled entity or branch) – determines its functional currency in accordance with paragraphs 11−16. The entity translates foreign currency items into its functional currency, and reports the effects of such translation in accordance with paragraphs 23–42 and 59.

21. Many reporting entities comprise a number of individual entities (e.g., an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint arrangements. They may also have branches. It is necessary for the financial performance and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The financial performance and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 43–59.

22. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 34, *Separate Financial Statements*, to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance and financial position are also translated into the presentation currency in accordance with paragraphs 43–59.

Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

23. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

    (a) Buys or sells goods or services whose price is denominated in a foreign currency;

    (b) Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

    (c) Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

24. **A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.**

25. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with IPSAS. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

26. Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in IPSAS 2. Although these changes are not

cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing, and financing activities, and include the differences, if any, if those cash flows had been reported at end-of-period exchange rates.

Reporting at Subsequent Reporting Dates

27. **At each reporting date:**

    (a) **Foreign currency monetary items shall be translated using the closing rate;**

    (b) **Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and**

    (c) **Non-monetary items that are measured at fair value or current operational value in a foreign currency shall be translated using the exchange rates at the date when the fair value or current operational value was measured.**

28. The carrying amount of an item is determined in conjunction with other relevant IPSAS. For example, property, plant, and equipment may be measured in terms of historical cost, current operational value or fair value in accordance with IPSAS 45, *Property, Plant, and Equipment*. Whether the carrying amount is determined on the basis of historical cost, current operational value or fair value, if the amount is determined in a foreign currency, it is then translated into the functional currency in accordance with this Standard.

29. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realizable value in accordance with IPSAS 12, *Inventories*. Similarly, in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*, the carrying amount of a non-cash generating asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

    (a) The cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e., the rate at the date of the transaction for an item measured in terms of historical cost); and

    (b) The net realizable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g., the closing rate at the reporting date).

    The effect of this comparison may be that an impairment loss is recognized in the functional currency, but would not be recognized in the foreign currency, or vice versa.

30. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

31. As noted in paragraph 5, this Standard does not deal with hedge accounting for foreign currency items. Guidance in relation to hedge accounting, including the criteria for when to use hedge accounting, can be found in IPSAS 41.

32. **Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they were translated on initial recognition during the**

period or in previous financial statements, shall be recognized in surplus or deficit in the period in which they arise, except as described in paragraph 37.

33. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each period up to the date of settlement is determined by the change in exchange rates during each period.

34. The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph 26.

35. **When a gain or loss on a non-monetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit.**

36. Other IPSAS require some gains and losses to be recognized directly in net assets/equity. For example, IPSAS 45 requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

37. **Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 18) shall be recognized in surplus or deficit in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g., consolidated financial statements when the foreign operation is a controlled entity), such exchange differences shall be recognized initially in a separate component of net assets/equity, and recognized in surplus or deficit on disposal of the net investment in accordance with paragraph 57.**

38. When a monetary item forms part of a reporting entity's net investment in a foreign operation, and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 32. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 32. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 32. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (i.e., financial statements in which the foreign operation is consolidated, or accounted for using the equity method).

39. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 23−30. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in Functional Currency

40. **When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.**

41. As noted in paragraph 15, the functional currency of an entity reflects the underlying transactions, events, and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events, and conditions. For example, a change in the currency that mainly influences the sales prices or the provision of goods and services may lead to a change in an entity's functional currency.

42. The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs 37 and 44(c) are not recognized in surplus or deficit until the disposal of the operation.

Use of a Presentation Currency Other than the Functional Currency

Translation to the Presentation Currency

43. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its financial performance and financial position into the presentation currency. For example, when an economic entity, such as an international organization, contains individual entities with different functional currencies, the financial performance and financial position of each entity are expressed in a common currency, so that consolidated financial statements may be presented. For national or state/provincial governments, the presentation currency is normally determined by the ministry of finance (or similar authority), or established in legislation.

44. **The financial performance and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

    (a) **Assets and liabilities for each statement of financial position presented (i.e., including comparatives) shall be translated at the closing rate at the date of that statement of financial position;**

    (b) **Revenue and expenses for each statement of financial performance (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and**

    (c) **All resulting exchange differences shall be recognized as a separate component of net assets/equity.**

45. In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation into its cash flow statement, the reporting entity shall comply with the procedures in IPSAS 2. IPSAS 2 requires that the cash flows of a controlled entity that satisfies the definition of a foreign operation shall be translated at the exchange rates between the presentation currency and the foreign currency at the dates of the cash flows. IPSAS 2 also outlines the presentation of unrealized gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.

46. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

47. The exchange differences referred to in paragraph 44(c) result from:

(a) Translating revenue and expenses at the exchange rates at the dates of the transactions, and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognized in surplus or deficit, and on those recognized directly in net assets/equity.

(b) Translating the opening net assets/equity at a closing rate that differs from the previous closing rate.

These exchange differences are not recognized in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognized as part of, non-controlling interests in the consolidated statement of financial position.

48. **The financial performance and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

(a) **All amounts (i.e., assets, liabilities, net assets/equity items, revenue, and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that**

(b) **When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e., not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**

49. **When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IPSAS 10 before applying the translation method set out in paragraph 48, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 48(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IPSAS 10, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a Foreign Operation

50. Paragraphs 51–56, in addition to paragraphs 43–49, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency, so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, or the equity method.

51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 35, *Consolidated Financial Statements*.)

52. However, a monetary asset (or liability) within an economic entity, whether short-term or long-term, cannot be eliminated against the corresponding liability (or asset) within an economic entity without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item (a) represents a commitment to convert one currency into another, and (b) exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference continues to be recognized in surplus or deficit or, if it arises from the circumstances described in paragraph 37, it is classified as net assets/equity until the disposal of the foreign operation.

53. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's

financial statements. IPSAS 35 specifies requirements for when the reporting period of the controlling entity is different from that of a controlled entity.

54. When there is a difference between the reporting date of the reporting entity and the foreign operation, the assets and liabilities of the foreign operation are translated at the exchange rate at the reporting date of the foreign operation.

55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 35. The same approach is used in applying the equity method to associates and joint ventures in accordance with IPSAS 36, *Investments in Associates and Joint Ventures*.

56. **Any goodwill 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 shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 44 and 48.**

Disposal or Partial Disposal of a Foreign Operation

57. **On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation and accumulated in a separate component of net assets/equity shall be reclassified from net assets/equity to surplus or deficit when the gain or loss on disposal is recognized (see IPSAS 1, *Presentation of Financial Statements).***

57A. In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:

(a) When the partial disposal involves the loss of control of a controlled entity that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former controlled entity after the partial disposal; and

(b) When the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

57B. On disposal of a controlled entity that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be transferred directly to accumulated surplus/deficit.

57C. **On the partial disposal of a controlled entity that includes a foreign operation, the entity shall reattribute the proportionate share of the cumulative amount of the exchange differences accumulated in a separate category of net assets/equity to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall transfer to accumulated surplus/deficit only the proportionate share of the cumulative amount of the exchange differences accumulated in net assets/equity.**

57D. A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 57A that are accounted for as disposals.

58. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital, or abandonment of all or part of that entity. The payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. A writedown of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognized by the entity

holding the interest, does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a writedown.

Tax Effects of Exchange Differences

59. For reporting entities subject to income taxes, guidance on the treatment of (a) tax effects associated with the gains and losses on foreign currency transactions, and (b) exchange differences arising on translating the financial performance and financial position of an entity (including a foreign operation) into a different currency, can be found in the relevant international or national accounting standards dealing with income taxes.

Disclosure

60. **In paragraphs 62 and 64–66, references to "functional currency" apply, in the case of an economic entity, to the functional currency of the controlling entity.**

61. **The entity shall disclose:**

    (a) **The amount of exchange differences recognized in surplus or deficit, except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with IPSAS 41; and**

    (b) **Net exchange differences classified in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**

62. **When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**

63. **When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.**

64. **When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with IPSAS only if they comply with all the requirements of each applicable Standard, including the translation method set out in paragraphs 44 and 48.**

65. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 64. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with IPSAS and the disclosures set out in paragraph 66 are required.

66. **When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 64 are not met, it shall:**

    (a) **Clearly identify the information as supplementary information, to distinguish it from the information that complies with IPSAS;**

    (b) **Disclose the currency in which the supplementary information is displayed; and**

    (c) **Disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

Transitional Provisions

First-time Adoption of Accrual Accounting

67. [Deleted]

68. [Deleted]

69. [Deleted]

70. [Deleted]

Foreign Currency Transactions and Advance Consideration (Amendments made by *Improvements to IPSAS*, 2018)

70A. On initial application, an entity shall apply the requirements of Appendix A either:

(a) Retrospectively applying IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) Prospectively to all assets, expenses and revenue in the scope of Appendix A initially recognized on or after:

(i) The beginning of the reporting period in which the entity first applies Appendix A; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies Appendix A.

70B. An entity that applies paragraph 70A(b) shall, on initial application, apply Appendix A to assets, expenses and revenue initially recognized on or after the beginning of the reporting period in paragraph 70A(b)(i) or (ii) for which the entity has recognized non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

Effective Date

71. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2010. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2010, it shall disclose that fact.**

71A. **Paragraphs 67, 68, 69, 70 and 72 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS*) issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

71B. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 3(b), 10, 13, 21, 22, 38, 47, 50, 51, 53, 55, 57 and 58 and added paragraphs 57A, 57B, 57C and 57D. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

71C. **Paragraphs 6 and 7 were deleted and paragraph 13 was amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

71D. **Paragraphs 3, 4, 5, 31 and 61 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1,**

2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.

71E. **Paragraphs 70A and 70B, and Appendix A (paragraphs A1–A9) were added by *Improvements to IPSAS*, 2018, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2019, it shall disclose that fact.**

71F. **Paragraph 17 was amended by IPSAS 43, Leases issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

71G. **Paragraphs 28 and 36 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

71H. **Paragraphs 27 and A5 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

71I. **Paragraph 11 was amended by IPSAS 47, *Revenue* issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

71J. **Paragraph 17 was amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 48 at the same time.**

72. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (*IPSAS)* 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.

Withdrawal of IPSAS 4 (2006)

73. This Standard supersedes IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, issued in 2006.

Appendix A

Foreign Currency Transactions and Advance Consideration

This Appendix is an integral part of IPSAS 4.

Introduction

A1. Paragraph 24 of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 25 of IPSAS 4 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IPSAS.

A2. When an entity pays or receives consideration in advance in a foreign currency, it generally recognizes a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or revenue. The related asset, expense or revenue (or part of it) is the amount recognized applying relevant IPSAS, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

A3. This Appendix clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue when an entity has received or paid advance consideration in a foreign currency.

Scope

A4. This Appendix applies to a foreign currency transaction (or part of it) when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or revenue (or part of it).

A5. This Appendix does not apply when an entity measures the related asset, expense or revenue on initial recognition:

(a) At fair value or current operational value; or

(b) At the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IPSAS 40, *Public Sector Combinations*).

A6. An entity is not required to apply this Appendix to:

(a) Income taxes; or

(b) Insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

Application of IPSAS 4 to Foreign Currency Transactions and Advance Consideration

A7. This Appendix addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

A8. Applying paragraphs 24–25 of IPSAS 4, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

A9. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Illustrative Examples

These Illustrative Examples accompany, but are not part of, IPSAS 4.

Foreign Currency Transactions and Advance Consideration

In these Illustrative Examples, foreign currency amounts are 'Foreign Currency' (FC) and functional currency amounts are 'Local Currency' (LC).

IE1. The objective of these examples is to illustrate how an entity determines the date of the transaction when it recognizes a non-monetary asset or non-monetary liability arising from advance consideration in a foreign currency before it recognizes the related asset, expense or revenue (or part of it) applying relevant IPSAS.

Example 1—A Single Advance Payment for the Purchase of a Single Item of Property, Plant and Equipment

IE2. On March 1, 20X1, Entity A entered into a contract with a supplier to purchase a machine for use in its operations. Under the terms of the contract, Entity A pays the supplier a fixed purchase price of FC1,000 on April 1, 20X1. On April 15, 20X1, Entity A takes delivery of the machine.

IE3. Entity A initially recognizes a non-monetary asset translating FC1,000 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on April 1, 20X1. Applying paragraph 27(b) of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, Entity A does not update the translated amount of that non-monetary asset.

IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognizes the non-monetary asset and recognizes the machine as property, plant and equipment applying IPSAS 45, *Property, Plant, and Equipment*. On initial recognition of the machine, Entity A recognizes the cost of the machine using the exchange rate at the date of the transaction, which is April 1 20X1 (the date of initial recognition of the non-monetary asset).

Example 2—Multiple Receipts for Revenue Recognized at a Single Point in Time

IE5. On June 1, 20X2, Entity B entered into a contract with a customer to deliver goods on September 1, 20X2. The total fixed contract price is an amount of FC100, of which FC40 is due and received on August 1, 20X2 and the balance is receivable on September 30, 20X2.

IE6. Entity B initially recognizes a non-monetary contract liability translating FC40 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on August 1, 20X2. Applying paragraph 27(b) of IPSAS 4, Entity B does not update the translated amount of that non-monetary liability.

IE7. Applying IPSAS 47, *Revenue*, Entity B recognizes revenue on September 1, 20X2, the date on which it transfers the goods to the customer, thereby satisfying its compliance obligation in the contract.

IE8. Entity B determines that the date of the transaction for the revenue relating to the advance consideration of FC40 is August 1, 20X2. Applying paragraph 25 of IPSAS 4, Entity B determines that the date of the transaction for the remainder of the revenue is September 1, 20X2.

IE9. On September 1, 20X2, Entity B:

(a) Derecognizes the contract liability of FC40 and recognizes revenue using the exchange rate on August 1, 20X2; and

(b) Recognizes revenue of FC60 and a corresponding receivable using the exchange rate on that date (September 1 20X2).

IE10. The receivable of FC60 recognized on September 1, 20X2 is a monetary item. Entity B updates the translated amount of the receivable until the receivable is settled.

Example 3—Multiple Payments for Purchases of Services Over a Period of Time

IE11. On May 1 20X3, Entity C entered into a contract with a supplier for services. The supplier will provide the services to Entity C evenly over the period from July 1, 20X3 to December 31 20X3. The contract requires Entity C to pay the supplier FC200 on June 15, 20X3 and FC400 on December 31, 20X3. Entity C has determined that, for this contract, the payment of FC200 on June 15 20X3 relates to the services to be received in the period July 1–August 31, 20X3, and the payment of FC400 on December 31, 20X3 relates to the services to be received in the period September 1–December 31, 20X3.

IE12. Entity C initially recognizes a non-monetary asset translating FC200 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on June 15, 20X3.

IE13. In the period July 1–August 31, 20X3, Entity C derecognizes the non-monetary asset and recognizes an expense of FC200 in surplus or deficit as it receives the services from the supplier. Entity C determines that the date of the transaction for the expense related to the advance consideration of FC200 is June 15, 20X3 (the date of initial recognition of the non-monetary asset).

IE14. In the period September 1–December 31, 20X3, Entity C initially recognizes the expense in surplus or deficit as it receives the services from the supplier. In principle, the dates of the transaction are each day in the period September 1–December 31, 20X3. However, if exchange rates do not fluctuate significantly, Entity C may use a rate that approximates the actual rates as permitted by paragraph 25 of IPSAS 4. If that is the case, Entity C may, for example, translate each month's expense of FC100 (FC400 ÷ 4) into its functional currency using the average exchange rate for each month for the period September 1–December 31, 20X3.

IE15. As Entity C recognizes the expense in the period September 1–December 31, 20X3, it recognizes a corresponding liability in respect of its obligation to pay the supplier. The liability is a monetary item. Entity C updates the translated amount of the liability until the liability is settled.

Example 4—Multiple Receipts for Revenue Recognized at Multiple Points in Time

IE16. On January 1, 20X4, Entity D enters into a contract to sell two products to a customer. Entity D transfers one product on March 1, 20X4 and the second on June 1 20X4. As required by the contract, the customer pays a fixed purchase price of FC1,000, of which FC200 is due and received in advance on January 31, 20X4 and the balance is due and received on June 1, 20X4.

IE17. The following facts are relevant:

(a) The price of the first product is FC450 and the price of the second product is FC550.

(b) Entity D has determined that, for this contract, the consideration of FC200 received on January 31, 20X4 relates to the first product transferred on March 1, 20X4. On transfer of that product to the customer, Entity D has an unconditional right to FC250 of the remaining consideration.

IE18. The spot exchange rates are:

Date	**Spot exchange rate FC:LC**
January 31, 20X4	1:1.5
March 1, 20X4	1:1.7
June 1, 20X4	1:1.9

IE19. The following journal entries illustrate how Entity D accounts for the foreign currency aspects of the contract:

(a) Entity D receives the advance payment of FC200 on January 31, 20X4, which it translates into its functional currency using the exchange rate at January 31, 20X4.

Dr Cash (FC200)	LC300	
Cr Contract liability (FC200)		LC300

(b) Applying paragraph 27(b) of IPSAS 4, Entity D does not update the translated amount of the non-monetary contract liability.

(c) Entity D transfers the first product with a price of FC450 on March 1, 20X4. Entity D derecognizes the contract liability and recognizes revenue of LC300. Entity D recognizes the remaining revenue of FC250 relating to the first product and a corresponding receivable, both of which it translates at the exchange rate at the date that it initially recognizes the remaining revenue of FC250, i.e., March 1, 20X4.

Dr Contract liability (FC200)	LC300	
Dr Receivable (FC250)	LC425	
Cr Revenue (FC450)		LC725

(d) The receivable of FC250 is a monetary item. Entity D updates the translated amount of the receivable until the receivable is settled (June 1, 20X4). At June 1, 20X4, the receivable of FC250 is equivalent to LC475. As required by paragraph 32 of IPSAS 4, Entity D recognizes an exchange gain of LC50 in surplus or deficit.

Dr Receivable	LC50	
Cr Foreign exchange gain		LC50

(e) Entity D transfers the second product with a price of FC550 on June 1, 20X4. Entity D recognizes revenue of FC550 using the exchange rate at the date of the transaction, which is the date that Entity D first recognizes this part of the transaction in its financial statements, i.e., June 1, 20X4.

(f) Entity D also receives the remaining consideration of FC800 on June 1, 20X4. FC250 of the consideration received settles the receivable of FC250 arising on the transfer of the first product. Entity D translates the cash at the exchange rate at June 1, 20X4.

Dr Cash (FC800)	LC1,520	
Cr Receivable (FC250)		LC475
Cr Revenue (FC550)		LC1,045

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 4.

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS. The Comparison with IAS 21 references only the version of IAS 21 that was revised in 2003 and amended in 2005.[1]

BC3. In May 2000, the IPSASB's predecessor, the Public Sector Committee (PSC), [2] issued the first version of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, which was based on IAS 21, *The Effects of Changes in Foreign Exchange Rates* (1993). In December 2006, the IPSASB revised IPSAS 4, which was based on IAS 21 (Revised 2003), as part of its General Improvements Project. In December 2005, the IASB issued an amendment to IAS 21 (published as *Net Investment in a Foreign Operation*.)

BC4. In early 2007, the IPSASB initiated a continuous improvements project to update existing IPSAS to be converged with the latest related IFRS to the extent appropriate for the public sector. As part of the project, the IPSASB reviewed the IASB's amendment to IAS 21 issued in December 2005 and generally concurred with the IASB's reasons for amending the IAS and with the amendment made. (The IASB's Basis for Conclusions as a result of the amendment is not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Basis for Conclusions on the IASB's website at http://www.iasb.org).

BC5. IAS 21 has been further amended as a consequence of IFRS and revised IAS issued after December 2005. IPSAS 4 does not include the consequential amendments arising from IFRS or revised IAS issued after December 2005. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS and the revisions to those IAS to public sector entities.

Revision of IPSAS 4 as a result of the IPSASB's The Applicability of IPSAS, issued in April 2016

BC6. 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 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.

[1] The International Accounting Standards(IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

[2] The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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

Revision of IPSAS 4 as a result of *Improvements to IPSAS*, 2018

BC7. 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.

COMPARISON WITH IAS 21

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* is drawn primarily from IAS 21, *The Effects of Changes in Foreign Exchange Rates* (revised in 2003, as amended in 2005). The main differences between IPSAS 4 and IAS 21 are as follows:

- IPSAS 4 uses different terminology, in certain instances, from IAS 21. The most significant examples are the use of the terms "revenue," "economic entity," "statement of financial performance," and "net assets/equity" in IPSAS 4. The equivalent terms in IAS 21 are "income," "group," "statement of comprehensive income," and "equity."

IPSAS 5—BORROWING COSTS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 23, *Borrowing Costs*, (Revised 1993), published by the International Accounting Standards Board (IASB®). Extracts from IAS 23 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 5—BORROWING COSTS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 5, *Borrowing Costs* was issued in May 2000.

Since then, IPSAS 5 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance* (issued November 2021)
- COVID-19: Deferral of Effective Dates (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- IPSAS 32, *Service Concession Arrangements: Grantor* (issued October 2011)

Table of Amended Paragraphs in IPSAS 5

Paragraph Affected	How Affected	Affected By
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
6	Amended	*Improvements to IPSAS* January 2020 IPSAS 32 October 2011 IPSAS 43 January 2022
11	Deleted	*The Applicability of IPSAS* April 2016
19	Amended	*Improvements to IPSAS* April 2016
25	Amended	*Improvements to IPSAS* October 2018
26	Amended	IPSAS 47 May 2023
41	Deleted	IPSAS 33 January 2015
41A	New	*Improvements to IPSAS* October 2018
42A	New	IPSAS 32 October 2011
42B	New	IPSAS 33 January 2015
42C	New	*The Applicability of IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
42D	New	*Improvements to IPSAS* October 2018
42E	Amended	*COVID-19: Deferral of Effective Dates* November 2020
42F	New	IPSAS 43 January 2022
42G	New	IPSAS 47 May 2023
43	Amended	IPSAS 33 January 2015
A.1	New	*Amendments to IPSAS 5* November 2021
A.2	New	*Amendments to IPSAS 5* November 2021
A.3	New	*Amendments to IPSAS 5* November 2021
A.4	New	*Amendments to IPSAS 5* November 2021
A.5	New	*Amendments to IPSAS 5* November 2021
A.6	New	*Amendments to IPSAS 5* November 2021
Heading above paragraph IE1	New	*Amendments to IPSAS 5* November 2021
IE1	New	*Amendments to IPSAS 5* November 2021
IE2	New	*Amendments to IPSAS 5* November 2021
IE3	New	*Amendments to IPSAS 5* November 2021
IE4	New	*Amendments to IPSAS 5* November 2021
Heading above paragraph IE5	New	*Amendments to IPSAS 5* November 2021
IE5	New	*Amendments to IPSAS 5* November 2021
IE6	New	*Amendments to IPSAS 5* November 2021
IE7	New	*Amendments to IPSAS 5* November 2021
IE8	New	*Amendments to IPSAS 5* November 2021
IE9	New	*Amendments to IPSAS 5* November 2021
Heading above paragraph IE10	New	*Amendments to IPSAS 5* November 2021
IE10	New	*Amendments to IPSAS 5* November 2021
IE11	New	*Amendments to IPSAS 5* November 2021
IE12	New	*Amendments to IPSAS 5* November 2021
IE13	New	*Amendments to IPSAS 5* November 2021
Heading above paragraph IE14	New	*Amendments to IPSAS 5* November 2021
IE14	New	*Amendments to IPSAS 5* November 2021
IE15	New	*Amendments to IPSAS 5* November 2021

Paragraph Affected	How Affected	Affected By
IE16	New	*Amendments to IPSAS 5* November 2021

May 2000

IPSAS 5—BORROWING COSTS

CONTENTS

International Public Sector Accounting Standard 5, *Borrowing Costs*, is set out in the objective and paragraphs 1–43. All the paragraphs have equal authority. IPSAS 5 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

This Standard prescribes the accounting treatment for borrowing costs. This Standard generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Scope

1. **This Standard shall be applied in accounting for borrowing costs.**

2. [Deleted]

3. [Deleted]

4. This Standard does not deal with the actual or imputed cost of net assets/equity. Where jurisdictions apply a capital charge to individual entities, judgment will need to be exercised to determine whether the charge meets the definition of borrowing costs, or whether it should be treated as an actual or imputed cost of net assets/equity.

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

   Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

   Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

   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.

Borrowing Costs

6. Borrowing costs may include:

   (a) Interest expense calculated using the effective interest method as described in IPSAS 41, Financial Instruments;

   (b) [Deleted]

   (c) [Deleted]

   (d) Interest in respect of leases liabilities and service concession arrangements; and

   (e) Exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

Economic Entity

7. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

8. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

9. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

10. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying "future economic benefits." To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

11. [Deleted]

Net Assets/Equity

12. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Qualifying Assets

13. Examples of qualifying assets are office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories that require a substantial period of time to bring them to a condition ready for use or sale. Other investments, and those assets that are routinely produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

Borrowing Costs—Benchmark Treatment

Recognition

14. **Borrowing costs shall be recognized as an expense in the period in which they are incurred**.

15. Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied.

Disclosure

16. **The financial statements shall disclose the accounting policy adopted for borrowing costs.**

Borrowing Costs—Allowed Alternative Treatment

Recognition

17. **Borrowing costs shall be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized in accordance with paragraph 18.**

18. **Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization shall be determined in accordance with this Standard.**

19. Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction, or production of an asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when (a) it is probable that they will result in future economic

benefits or service potential to the entity, and (b) the costs can be measured reliably[1]. Other borrowing costs are recognized as an expense in the period in which they are incurred.

20. **Where an entity adopts the allowed alternative treatment, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity.**

Borrowing Costs Eligible for Capitalization

21. The borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are those borrowing costs that would have been avoided if the outlays on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

22. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset, and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is coordinated centrally. Difficulties also arise when an economic entity uses a range of debt instruments to borrow funds at varying rates of interest, and transfers those funds on various bases to other entities in the economic entity. Funds that have been borrowed centrally may be transferred to other entities within the economic entity as a loan, a grant, or a capital injection. Such transfers may be interest-free, or require that only a portion of the actual interest cost be recovered. Other complications arise (a) through the use of loans denominated in or linked to foreign currencies, (b) when the economic entity operates in highly inflationary economies, and (c) from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult, and the exercise of judgment is required.

23. **To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings.**

24. The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for outlays on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their outlay on the qualifying asset. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

25. **To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the outlays on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.**

26. Only those borrowing costs applicable to the borrowings of the entity may be capitalized. When a controlling entity borrows funds that are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalize only those borrowing costs which it itself has incurred. Where a

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[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

controlled entity receives an interest-free capital contribution or capital transfer, it will not incur any borrowing costs, and consequently will not capitalize any such costs.

27. When a controlling entity transfers funds at partial cost to a controlled entity, the controlled entity may capitalize that portion of borrowing costs which it itself has incurred. In the financial statements of the economic entity, the full amount of borrowing costs can be capitalized to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity.

28. When a controlling entity has transferred funds at no cost to a controlled entity, neither the controlling entity nor the controlled entity would meet the criteria for capitalization of borrowing costs. However, if the economic entity met the criteria for capitalization of borrowing costs, it would be able to capitalize the borrowing costs to the qualifying asset in its financial statements.

29. In some circumstances, it is appropriate to include all borrowings of the controlling entity and its controlled entities when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each controlled entity to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount

30. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realizable value, the carrying amount is written down or written off in accordance with the requirements of IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. In certain circumstances, the amount of the write-down or write off is written back in accordance with those other standards.

Commencement of Capitalization

31. **The capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when:**

    (a) **Outlays for the asset are being incurred;**

    (b) **Borrowing costs are being incurred; and**

    (c) **Activities that are necessary to prepare the asset for its intended use or sale are in progress.**

32. Outlays on a qualifying asset include only those outlays that have resulted in payments of cash, transfers of other assets, or the assumption of interest-bearing liabilities. The average carrying amount of the asset during a period, including borrowing costs previously capitalized, is normally a reasonable approximation of the outlays to which the capitalization rate is applied in that period.

33. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalized during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalization.

Suspension of Capitalization

34. **Capitalization of borrowing costs shall be suspended during extended periods in which active development is interrupted, and expensed.**

35. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets, and do not qualify for capitalization. However, capitalization of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalization continues during an extended period needed for inventories to mature or an extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

Cessation of Capitalization

36. **Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**

37. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete, even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that is outstanding, this indicates that substantially all the activities are complete.

38. **When the construction of a qualifying asset is completed in parts, and each part is capable of being used while construction continues on other parts, capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.**

39. An office development comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues on other parts. Examples of qualifying assets that need to be complete before any part can be used include (a) an operating theatre in a hospital when all construction must be complete before the theatre may be used, (b) a sewage treatment plant where several processes are carried out in sequence at different parts of the plant, and (c) a bridge forming part of a highway.

Disclosure

40. **The financial statements shall disclose:**

    (a) **The accounting policy adopted for borrowing costs;**

    (b) **The amount of borrowing costs capitalized during the period; and**

    (c) **The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (when it was necessary to apply a capitalization rate to funds borrowed generally).**

Transitional Provisions

41. [Deleted]

41A. *Improvements to IPSAS*, 2018, issued in October 2018, amended paragraph 25. An entity shall apply this amendment to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

Effective Date

42. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2001. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2001, it shall disclose that fact.**

42A. **Paragraph 6 was amended by IPSAS 32, *Service Concession Arrange-ments: Grantor* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 25–27 and 85B of IPSAS 13, the amendments to paragraphs 5, 7 and 107C of IPSAS 17, the amendments to paragraphs 2 and 125A of IPSAS 29 and the amendments to paragraphs 6 and 132A of IPSAS 31.**

42B. **Paragraphs 41 and 43 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

42C. **Paragraphs 2, 3 and 11 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

42D. **Paragraph 25 was amended and paragraph 41A added by *Improvements to IPSAS*, 2018, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2019, it shall disclose that fact.**

42E. **Paragraph 6 was amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2023, it shall disclose that fact and apply IPSAS 41 at the same time.**

42F. **Paragraph 6 was amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

42G. **Paragraph 26 was amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

43. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 5.

Revision of IPSAS 5 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC1. 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 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 5 as a result of *Improvements to IPSAS, 2018*

BC2. The IPSASB reviewed the revisions to IAS 23, *Borrowing Costs*, included in *Annual Improvements to IFRS® Standards 2015–2017 Cycle* issued by the IASB in December 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB noted that, although IPSAS 5 and IAS 23 have diverged, the accounting for the allowed alternative treatment in IPSAS 5 is consistent with the accounting in IAS 23. The IPSASB agreed, therefore, that there was no public sector specific reason for not adopting the amendments. The IPSASB concurred with the IASB's view that the costs of applying the amendments retrospectively might exceed the potential benefits of doing so. Consequently, an entity applies the amendments only to borrowing costs incurred on or after the date it first applies the amendments.

Revision of IPSAS 5 as a result of *Improvements to IPSAS, 2019*

BC3. The amendments to paragraph 6 update the guidance related to the components of borrowing costs resulting from IPSAS 41, *Financial Instruments* which were inadvertently omitted when IPSAS 41 was issued. The IPSASB agreed to include these minor amendments in *Improvements to IPSAS, 2019.*

Revision of IPSAS 5 as a result of COVID-19: Deferral of Effective Dates

BC4. The IPSASB published *Improvements to IPSAS, 2019* in January 2020, which included *Amendments to IPSAS 5*, *Borrowing Costs*. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC5. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC6. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC7. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 5 as a result of the IPSASB's *Consultation Paper, Measurement,* issued in April 2019

BC8. In April 2019, the IPSASB published the Consultation Paper, *Measurement*. The Consultation Paper proposed a comprehensive framework outlining how measurement bases should be determined when applied in the context of IPSAS. One of the objectives of the Consultation Paper was to seek feedback on whether one of the accounting policy choices in IPSAS 5, *Borrowing Costs* should be removed.

BC9. IPSAS 5 permits two accounting policy choices for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset: capitalization or recognition as an expense.

BC10. The IPSASB proposed eliminating the option to capitalize borrowing costs in order to:

(a) Address a public sector issue where borrowing is centralized and determined for the economic entity as a whole. Expensing borrowing costs lessens the burden of attributing centralized borrowing costs to specific projects within the public sector;

(b) Enhance comparability between the cost of the acquisition, construction, or production of a qualifying asset between public sector entities; and

(c) Align more closely with the requirements in the Government Finance Statistics Manual (GFSM) 2014.

BC11. In developing its preliminary view, the IPSASB acknowledged the complexity of the issue. This complexity, and opposing views on what should be included in cost, resulted in responses to the preliminary view being split with many respondents supporting the Board's proposal, and equally, many respondents disagreeing. Those that disagreed with the proposal to remove the existing accounting policy choice considered that the reasons given for doing so were insufficient. They argued that:

(a) The difficulties in attributing borrowing costs to specific projects in the public sector were overstated and were an insufficient reason to diverge from private sector accounting treatment. Large conglomerates in the private sector face similar challenges and are able to capitalize borrowing costs;

(b) Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are part of the cost of that asset. During the period when an asset is under development, the outlays for the resources used must be financed. Financing has a cost. The cost of the asset should include all costs necessarily incurred to get the asset ready for its intended use or sale, including the cost incurred in financing the outlays as a part of the asset's acquisition, construction, or production cost;

(c) Capitalizing directly attributable borrowing costs enhances accountability and decision making; and

(d) Immediate expensing of borrowing costs would be inconsistent with the requirements in other standards to capitalize transaction costs directly attributable to the acquisition, construction, or production of a qualifying asset.

BC12. Having reviewed the responses, the IPSASB decided to retain the existing accounting policy choice. This approach enables preparers to select the policy that best achieves the measurement objective of the qualifying asset.

BC13. The IPSASB observed the existing accounting policy choice is consistent with the measurement principles in the Conceptual Framework and allows preparers of public sector financial statements to consider the qualitative characteristics of useful information when selecting an approach that most faithfully represents the cost of the asset.

BC14. Further supporting its decision to retain the accounting policy choice, the IPSASB noted the following:

(a) Both capitalizing borrowing costs and expensing borrowing costs have technical merits. In some cases, respondents took opposite views: for example, on whether borrowing costs are an attribute of the cost of an asset;

(b) The goal of the approach when accounting for borrowing costs is to assist financial statement users in obtaining the most appropriate reflection of acquisition, construction, or production costs of a qualifying asset, which may in some cases include borrowing costs;

(c) While at certain levels of government the allocation of borrowing costs is challenging, at other levels, such as at the local government levels, it can be relatively straightforward;

(d) Capitalization of borrowing costs would align with IFRS where that is an economic entity's preferred approach, whereas the expensing of borrowing costs would demonstrate alignment with GFS if that is an economic entity's preferred approach; and

(e) There would need to be a clear benefit to expensing all borrowing costs before the IPSASB would remove the existing accounting policy choice to capitalize borrowing costs. Because there are unavoidable costs in eliminating an accounting policy choice, the IPSASB carefully considered the costs and benefits of any new pronouncement. In this case, the IPSASB had not been informed that preparers who elected to capitalize borrowing costs under IPSAS 5 found doing so unnecessarily burdensome.

BC15. Some respondents to the Consultation Paper identified practical public sector challenges in capitalizing borrowing costs. The IPSASB therefore developed Implementation Guidance and Illustrative Examples to assist entities in determining the extent to which borrowing costs can be capitalized.

Distinction between borrowing costs and transaction costs

BC16. In reaching the conclusion to retain the accounting policy choice, the IPSASB noted that accounting for borrowing costs may not be consistent with accounting for transaction costs. Some respondents proposed that the accounting treatment of borrowing costs and transaction costs should be consistent because they considered either:

(a) Borrowing costs to be a type of transaction costs. Borrowing costs are directly attributable to the borrowing (for example, the issuance of a government financial instrument). Therefore, they meet the criteria of a transaction cost; or

(b) Transaction costs to be a type of borrowing costs. Some respondents proposed this view based on the methodology applied in calculating the effective interest rate of a financial instrument. This is because some transaction costs are added to, or subtracted from, the principal amount of a financial instrument when determining the gross proceeds of a borrowing in order to determine the effective interest rate.

BC17. The IPSASB considered these views, but decided that borrowing costs and transaction costs are different economic phenomena. The IPSASB concluded it is appropriate for the accounting principles to differ for each type of "cost" depending on the facts and circumstances.

BC18. In reaching this view, the IPSASB noted that borrowing costs comprise interest and other expenses incurred by an entity in connection with borrowing funds. Borrowing costs are often contractually linked to the underlying borrowing. Should the borrowing be transferred, the borrowing costs would either be transferred to the new counterparty or separated contractually.

BC19. Transaction costs are incremental costs directly attributable to the transaction. However, transaction costs are independent of the contractual terms of the debt instrument. Should the debt instrument be transferred, the entity transferring the instrument is generally not compensated for the transaction costs because they are not transferred to the counterparty assuming the instrument.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 5.

A.1 Period of Borrowing Cost Capitalization

When applying the allowed alternative treatment, as described in paragraphs 17–18, when can an entity begin to include borrowing costs in the cost of the qualifying asset?

Where outlays and borrowings have been incurred specifically to fund a qualifying asset's acquisition, construction, or production, the costs of those borrowings should be capitalized when the activities necessary to prepare the asset for its intended use or sale begin. The activities necessary to get the asset ready for use encompass more than the asset's physical acquisition, construction, or production. The activities include technical and administrative work prior to the commencement of physical acquisition, construction, or production, but exclude holding the asset when no development that changes the asset's condition is being undertaken.

The activities (i.e., technical and administrative work) undertaken prior to commencement of the physical acquisition, construction, or production of a qualifying asset should contribute to the actual development or construction of that asset.

A.2 Limit on Capitalization

When applying the allowed alternative treatment, as described in paragraphs 17–18, to specific borrowings, are borrowing costs included in the cost of the qualifying asset in that period limited to the borrowing costs incurred in that period?

Yes. If a borrowing can be specifically associated with outlays on acquisition, construction, or production of a qualifying asset, the amount of borrowing costs capitalized during that period is limited to the borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

A.3 Asset Funded through Transfers

In many jurisdictions, the acquisition, construction, or production of a qualifying asset is funded through a transfer from another public sector entity. Does the entity acquiring, constructing, or producing the qualifying asset consider the transferor's underlying source of the funds, i.e., whether the funds are generated by tax revenues, general cash holdings or borrowings, when it determines the amount that can be included in the cost of the qualifying asset when applying the allowed alternative treatment, as described in paragraphs 17–18?

No. When the acquisition, construction, or production of a qualifying asset is fully funded through a transfer, there will be no directly attributable borrowing costs to capitalize. The entity may include in the cost of the qualifying asset only those borrowing costs which it has incurred.

A.4 Asset Funded through a Centralized Lending Program – Interest Rates

A centralized lending agency may fund its activities by borrowings through several separate loan instruments. Each instrument may have a different interest rate. An entity may borrow funds from the centralized lending agency and use these funds for the acquisition, construction, or production of a qualifying asset. If the entity is using the allowed alternative treatment, as described in paragraphs 17–18, does the entity apply the weighted average interest rate incurred by the centralized lending agency when including borrowing costs in the cost of the qualifying asset?

No. The weighted average interest rate incurred by the centralized lending agency is not relevant in the preparation of the financial statements of the entity acquiring, constructing, or producing the qualifying asset. The entity can include in the cost of the qualifying asset only those borrowing costs which it itself has incurred.

The entity must consider all facts and circumstances when determining the borrowing costs incurred in its arrangement with the centralized lending agency. In some cases, the interest rate stated in the terms of the arrangement may not reflect the true borrowing costs associated with the funds received. When the entity identifies concessionary terms, the entity should apply the requirements in IPSAS 41, *Financial Instruments*, paragraphs AG118–AG127[2] and capitalize borrowing costs based on a market related interest rate that the entity would have incurred on a similar loan (see IPSAS 41, IE153-IE172 for examples illustrating how to determine the interest rate in a concessionary loan). Interest expense calculated using the effective interest rate method is eligible for inclusion in the cost of the qualifying asset in accordance with this Standard.

If the centralized lending agency and the entity to which it lends funds are part of the same economic entity, in the financial statements of the consolidated entity, the borrowing costs incurred by the centralized lending agency can be capitalized to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity.

A.5 Asset Funded through an Entity's Own General Borrowing – Borrowings are not Specific to Qualifying Asset

When an entity acquiring, constructing, or producing a qualifying asset manages its own borrowing program, but borrowings are not specific to the qualifying asset, how does the entity determine the borrowing costs directly attributable to the qualifying asset? This may occur when an entity uses cash on hand to fund the cost of a qualifying asset. This cash on hand is funded from general borrowings, tax revenue and other fees and transfers.

The amount of borrowing costs eligible for inclusion in the cost of the qualifying asset is determined using the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period. The weighted average of borrowing costs is then applied to the outlays on the qualifying asset incurred during the period in determining the amount eligible for capitalization.

The entity shall exclude from the weighted average calculation, those borrowings that are made specifically for the purpose of obtaining another qualifying asset until substantially all the activities necessary to prepare that asset for its intended use are complete. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

A.6 Asset Funded through General Borrowings – Range of Debt Instruments

Does an entity apply a weighted average of borrowing costs when multiple debt instruments are used to fund the cost of a qualifying asset?

Yes. An entity may not be able to fund the cost of a qualifying asset with a single debt instrument. When multiple debt instruments are used, the cost of borrowing is determined by calculating the weighted average of the borrowing costs applicable to all the debt instruments outstanding during the period, excluding borrowings that are made specifically for the purpose of obtaining another qualifying asset (until substantially all the activities necessary to prepare that asset for its intended use are complete).

2 Where an entity has not yet adopted IPSAS 41, the requirements in IPSAS 29, *Financial Instruments: Recognition and Measurement,* paragraphs AG84-AG90 are applied. Similar to the IPSAS 41 requirements, an entity should capitalize borrowing costs based on a market related interest rate that the constructing entity would have incurred on a similar loan.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 5.

Qualifying Asset Constructed Over a Period of Time

IE1. On March 31, 20X1, Municipality XYZ begins construction of a tunnel to accommodate transit between two commercial hubs. The construction period is 5 years and the project is budgeted to cost CU100 million (CU20 million is paid to the construction company on the date the construction begins and on March 31 of each subsequent year during the construction period). Municipality XYZ issues a 25-year CU100 million bond on March 31, 20X1 that yields a fixed coupon of 5 per cent per annum. This bond was issued specifically to finance the construction of this project. The Municipality has a December 31 year end and earns a rate of interest of 3 percent on the temporary investment of any excess borrowings.

IE2. On December 31, 20X1, the Municipality has accrued borrowing costs of CU3.75 million (CU100 million x 5 percent x 9/12 months).

IE3. In determining the borrowing costs that can be included in the cost of the tunnel, the Municipality is limited to capitalizing the borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.

IE4. At December 31, 20X1, Municipality XYZ recognizes its tunnel asset as a work in progress. The amount capitalized is CU21.95 million (CU20 million + [CU100 million x 5 percent x 9/12 months] – [CU80 million x 3 percent x 9/12 months]). This represents the funds transferred to the construction company and the borrowing costs incurred during the period less the investment income earned on the CU80 million invested.

Centralized Borrowing Program – Eligible Borrowing Costs

IE5. The Department of Infrastructure begins construction of a new road network on June 15, 20X1. The project costs are budgeted to be CU500 million. All financing required by the Department of Infrastructure, and all other government departments, is secured centrally by the Department of Finance.

IE6. The Department of Finance estimates its cash flow needs on an annual basis in order to determine the most appropriate source of funding to meet its internal lending needs. These sources include tax revenue, fee revenue, bonds issuances and loans.

IE7. The Department of Infrastructure negotiates a 10-year loan from the Department of Finance. The Department of Finance requires the Department of Infrastructure to pay borrowing costs of 3 percent per annum. This is consistent with the market rate of interest the Department of Infrastructure would incur if the arrangement was negotiated at arm's length.

IE8. When the Department of Infrastructure secures financing from the Department of Finance, the Department of Infrastructure is aware borrowings comprise various sources, but has no visibility of how the Department of Finance sources the funds, nor of the weighted average borrowing costs the Department of Finance incurs.

IE9. In determining the borrowing costs eligible for inclusion in the cost of the road network, the Department of Infrastructure includes only those borrowing costs which it itself has incurred. Because the loan is at market terms, the Department of Infrastructure concludes there are no concessionary elements and determines borrowing costs eligible for inclusion in the cost of the road network are based on the interest rate of 3 percent stated in the contract.

General Borrowing – Weighted Average Cost of Borrowing

IE10. State Government T has begun construction of a new airport. The cost of this airport is budgeted to be CU500 million. State Government T manages its own borrowings; however, it does not borrow for specific projects.

In determining its borrowing needs, State Government T budgets its cash shortfall over a given period and ensures borrowings will cover its liquidity needs.

IE11. Over the construction period, State Government T held three instruments that were open for the entire construction period:

- State Bonds – CU1 billion, yielding an annual rate of 5 percent;
- Loan with Financial Institution A – CU300 million, with an annual interest rate of 7 percent; and
- Loan with Financial Institution B – CU600 million, with an annual interest rate of 9 percent.

IE12. In determining the amount of borrowing costs eligible for inclusion in the cost of the airport, State Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period.

	A	B	C	D = B x C
	Principal	**Interest Rate**	**Proportion of Debt**	**Weighted Average**
State Bonds	CU1,000 million	5 percent	1,000 / 1,900	2.63
Loan A	CU300 million	7 percent	300 / 1,900	1.11
Loan B	CU600 million	9 percent	600 / 1,900	2.84
Weighted Average Interest Rate				**6.58 percent**

IE13. State Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period to be 6.58 percent.

Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount

IE14. State Government C began construction of a new road network on January 1, 20X1. The cost of this road network is budgeted to be CU750 million. State Government C funds this project with amounts received on January 1, 20X1 from two sources:

- Federal grant in the amount of CU500 million; and
- Loan from a financial institution of CU250 million, with an annual interest rate of 5 percent.

In order to receive the federal grant, State Government C was required to show it was able to secure financing. It is State Government C's policy to allocate borrowed funds to the construction of the qualifying asset first. State Government C earns a rate of interest of 3 percent on the temporary investment of any excess borrowings.

IE15. As at December 31, 20X1, State Government C has incurred outlays of CU200 million as part of the construction of the asset. These outlays were transferred in one lump sum payment to the construction company at the commencement of construction on January 1, 20X1. In addition to the outlays of CU200 million, State Government C capitalizes CU11 million ([CU250 million x 5 percent] – [CU50 million x 3 percent]) in borrowing costs, against the qualifying asset.

IE16. Because State Government C borrowed CU250 million for the purposes of obtaining the road network, but has only incurred outlays related to that qualifying asset in the amount of CU200 million, State Government C was able to earn interest revenue on the excess funds borrowed. State Government C capitalized borrowing costs incurred during the period of CU12.5 million less the investment income of CU1.5 million on the temporary investment of those borrowings.

COMPARISON WITH IAS 23

IPSAS 5, *Borrowing Costs* is drawn primarily from IAS 23, *Borrowing Costs* (1993). The main differences between IPSAS 5 and IAS 23 are as follows:

- IPSAS 5 uses different terminology, in certain instances, from IAS 23. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 5. The equivalent terms in IAS 23 are "income," "income statement," and "equity."
- IPSAS 5 contains a different set of definitions of technical terms from IAS 23 (paragraph 5).

International Public Sector Accounting Standard (IPSAS) 6, *Consolidated and Separate Financial Statements* has been superseded by IPSAS 34, *Separate Financial Statements* and IPSAS 35, *Consolidated Financial Statements*. These Standards apply for annual financial statements covering periods beginning on or after January 1, 2017. As a result, IPSAS 6 is no longer applicable and has been removed.

International Public Sector Accounting Standard (IPSAS) 7, *Investments in Associates* has been superseded by IPSAS 36*, Investments in Associates* and *Joint Ventures*. This Standards apply for annual financial statements covering periods beginning on or after January 1, 2017. As a result, IPSAS 7 is no longer applicable and has been removed.

International Public Sector Accounting Standard (IPSAS) 8, *Interests in Joint Ventures* has been superseded by IPSAS 37, *Joint Arrangements*. This Standards apply for annual financial statements covering periods beginning on or after January 1, 2017. As a result, IPSAS 8 is no longer applicable and has been removed.

IPSAS 9—REVENUE FROM EXCHANGE TRANSACTIONS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 18 (Revised 1993), *Revenue*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 18 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 9—REVENUE FROM EXCHANGE TRANSACTIONS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 9, *Revenue from Exchange Transactions* was issued in July 2001.

Since then, IPSAS 9 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 9

Paragraph Affected	How Affected	Affected By
1	Amended	*Improvements to IPSAS* November 2010
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
9	Amended	*Improvements to IPSAS* November 2010 IPSAS 37 January 2015
10	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010 *Improvements to IPSAS* November 2010 IPSAS 41 August 2018 IPSAS 45 May 2023
11	Amended	IPSAS 46 May 2023
12	Amended	*Improvements to IPSAS* November 2010
19	Amended	*Improvements to IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
33	Amended	*Improvements to IPSAS* November 2010
34	Amended	*Improvements to IPSAS* November 2010
36	Amended	*Improvements to IPSAS* November 2010
39	Amended	*Improvements to IPSAS* November 2010
41A	New	IPSAS 33 January 2015
41B	New	IPSAS 37 January 2015
41C	New	*The Applicability of IPSAS* April 2016
41D	Amended	*COVID-19: Deferral of Effective Dates* November 2020
41E	New	IPSAS 45 May 2023
41F	New	IPSAS 46 May 2023
42	Amended	IPSAS 33 January 2015
IG1	Amended	*Improvements to IPSAS* November 2010
IG12	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
Heading above IG29	Amended	*Improvements to IPSAS* November 2010
IG32	New	*Improvements to IPSAS* November 2010
IG33	New	*Improvements to IPSAS* November 2010
IG34	New	*Improvements to IPSAS* November 2010

July 2001

IPSAS 9—REVENUE FROM EXCHANGE TRANSACTIONS

CONTENTS

International Public Sector Accounting Standard 9, *Revenue from Exchange Transactions*, is set out in the objective and paragraphs 1–42. All the paragraphs have equal authority. IPSAS 9 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting* by Public Sector Entities. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The IASB's *Framework for the Preparation and Presentation of Financial Statements* defines income as "increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants." The IASB definition of income encompasses both revenue and gains. This Standard uses the term "revenue," which encompasses both revenues and gains, in place of the term "income." Certain specific items to be recognized as revenues are addressed in other standards, and are excluded from the scope of this Standard. For example, gains arising on the sale of property, plant, and equipment are specifically addressed in standards on property, plant, and equipment and are not covered in this Standard.

The objective of this Standard is to prescribe the accounting treatment of revenue arising from exchange transactions and events.

The primary issue in accounting for revenue is determining when to recognize revenue. Revenue is recognized when it is probable that (a) future economic benefits or service potential will flow to the entity, and (b) these benefits can be measured reliably[1]. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognized. It also provides practical guidance on the application of these criteria.

Scope

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

   (a) **The rendering of services;**

   (b) **The sale of goods; and**

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

2. **[Deleted]**

3. **[Deleted]**

4. **This Standard does not deal with revenue arising from non-exchange transactions.**

5. **Public sector entities may derive revenues from exchange or non-exchange transactions. An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to the other party in exchange. Examples of exchange transactions include:**

   (a) The purchase or sale of goods or services; or

   (b) The lease of property, plant, and equipment at market rates.

6. **In distinguishing between exchange and non-exchange revenues, substance rather than the form of the transaction should be considered. Examples of non-exchange transactions include revenue from the use of sovereign powers (for example, direct and indirect taxes, duties, and fines), grants, and donations.**

7. **The rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time. The services may be rendered within a single period, or over more than one**

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of re-liability.

period. Examples of services rendered by public sector entities for which revenue is typically received in exchange may include the provision of housing, management of water facilities, management of toll roads, and management of transfer payments. Some agreements for the rendering of services are directly related to construction contracts, for example, those for the services of project managers and architects. Revenue arising from these agreements is not dealt with in this Standard, but is dealt with in accordance with the requirements for construction contracts as specified in IPSAS 11, *Construction Contracts*.

8. **Goods includes (a) goods produced by the entity for the purpose of sale, such as publications, and (b) goods purchased for resale, such as merchandise or land and other property held for resale.**

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

   (a) Interest – charges for the use of cash or cash equivalents, or amounts due to the entity;

   (b) Royalties – charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights, and computer software; and

   (c) Dividends or similar distributions – distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

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

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

   (b) Dividends or similar distributions arising from investments that are accounted for under the equity method (see IPSAS 36, *Investments in Associates and Joint Ventures*);

   (c) Gains from the sale of property, plant, and equipment (which are dealt with in IPSAS 45, *Property, Plant, and Equipment*);

   (d) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;

   (e) Changes in the fair value of financial assets and financial liabilities or their disposal (see IPSAS 41, *Financial Instruments*);

   (f) Changes in the value of other current assets;

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

   (h) Initial recognition of agricultural produce (see IPSAS 27); and

   (i) The extraction of mineral ores.

Definitions

11. **The following terms are used in this Standard with the meanings specified:**

<u>Exchange transactions</u> are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

<u>Non-exchange transactions</u> are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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.

Revenue

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

13. **Financing inflows, notably borrowings, do not meet the definition of revenue because they (a) result in an equal change in both assets, and liabilities and (b) have no impact upon net assets/equity. Financing inflows are taken directly to the statement of financial position and added to the balances of assets and liabilities.**

Measurement of Revenue

14. **Revenue shall be measured at the fair value of the consideration received or receivable.**

15. **The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received, or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity.**

16. **In most cases, the consideration is in the form of cash or cash equivalents, and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest-free credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:**

    (a) The prevailing rate for a similar instrument of an issuer with a similar credit rating; or

    (b) A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

    The difference between the fair value and the nominal amount of the consideration is recognized as interest revenue in accordance with paragraphs 33 and 34.

17. **When goods or services are exchanged or swapped for goods or services that are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. This is often the case with commodities like oil or milk, where suppliers exchange or swap inventories in various locations to fulfill demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received,**

adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Identification of the Transaction

18. **The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the price of a product includes an identifiable amount for subsequent servicing, that amount is deferred, and recognized as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.**

Rendering of Services

19. **When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:**

    (a) **The amount of revenue can be measured reliably;**

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

    (c) **The stage of completion of the transaction at the reporting date can be measured reliably; and**

    (d) **The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.**

20. **The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognized in the reporting periods in which the services are rendered. For example, an entity providing property valuation services would recognize revenue as the individual valuations are completed. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period. IPSAS 11 also requires the recognition of revenue on this basis. The requirements of that Standard are generally applicable to the recognition of revenue and the associated expenses for a transaction involving the rendering of services.**

21. **Revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.**

22. **An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:**

    (a) Each party's enforceable rights regarding the service to be provided and received by the parties;

    (b) The consideration to be exchanged; and

(c) The manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably.

23. **The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:**

(a) Surveys of work performed;

(b) Services performed to date as a percentage of total services to be performed; or

(c) The proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

Progress payments and advances received from customers often do not reflect the services performed.

24. **For practical purposes, when services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight line basis over the specified time frame, unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.**

25. **When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized only to the extent of the expenses recognized that are recoverable.**

26. **During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred. Therefore, revenue is recognized only to the extent of costs incurred that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no surplus is recognized.**

27. **When (a) the outcome of a transaction cannot be estimated reliably, and (b) it is not probable that the costs incurred will be recovered, revenue is not recognized and the costs incurred are recognized as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognized in accordance with paragraph 19 rather than in accordance with paragraph 25.**

Sale of Goods

28. **Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied:**

(a) **The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;**

(b) **The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;**

(c) **The amount of revenue can be measured reliably;**

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

(e) **The costs incurred or to be incurred in respect of the transaction can be measured reliably.**

29. **The assessment of when an entity has transferred the significant risks and rewards of ownership to the purchaser requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the purchaser. This is the case for most sales. However, in certain other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.**

30. **If the entity retains significant risks of ownership, the transaction is not a sale, and revenue is not recognized. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:**

(a) When the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;

(b) When the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the purchaser from its sale of the goods (for example, where a government publishing operation distributes educational material to schools on a sale or return basis);

(c) When the goods are shipped subject to installation and the installation is a significant part of the contract that has not yet been completed by the entity; and

(d) When the purchaser has the right to rescind the purchase for a reason specified in the sales contract, and the entity is uncertain about the probability of return.

31. **If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognized. For example, a seller may retain the legal title to the goods solely to protect the collectability of the amount due. In such a case, if the entity has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognized. Another example of an entity retaining only an insignificant risk of ownership may be a sale when a refund is offered if the purchaser is not satisfied. Revenue in such cases is recognized at the time of sale, provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors.**

32. **Revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. For example, the revenue may be dependent upon the ability of another entity to supply goods as part of the contract, and if there is any doubt that this will occur, recognition may be delayed until it has occurred. When the goods are supplied, the uncertainty is removed and revenue is recognized. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.**

Interest, Royalties, and Dividends or Similar Distributions

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

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

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

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

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

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

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

35. **The effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset. Interest revenue includes the amount of amortization of any discount, premium, or other difference between the initial carrying amount of a debt security and its amount at maturity.**

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

37. **Royalties, such as petroleum royalties, accrue in accordance with the terms of the relevant agreement, and are usually recognized on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognize revenue on some other systematic and rational basis.**

38. **Revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.**

Disclosure

39. **An entity shall disclose:**

(a) **The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;**

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

(i) **The rendering of services;**

(ii) **The sale of goods;**

(iii) **Interest;**

(iv) **Royalties; and**

(v) **Dividends or similar distributions; and**

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

40. **Guidance on disclosure of any contingent assets and contingent liabilities can be found in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Contingent assets and contingent liabilities may arise from items such as warranty costs, claims, penalties, or possible losses.**

Effective Date

41. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2002. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2002, it shall disclose that fact.**

41A. **Paragraph 42 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

41B. **IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 10(b). An entity shall apply that amendment when it applies IPSAS 37.**

41C. **Paragraphs 2 and 3 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

41D. **Paragraph 10 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

41E. **Paragraph 10(c) was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

41F. **Paragraph 11 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

42. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 9.

Revision of IPSAS 9 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC1. 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 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.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 9.

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

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

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

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

IG2. The application of the recognition criteria to particular transactions may be affected by:

(a) The law in different countries, which may determine the point in time at which the entity transfers the significant risks and rewards of ownership. Therefore, the examples in this section of the implementation guidance need to be read in the context of the laws in the country in which the transaction takes place; and

(b) The nature of the relationship (contractual or otherwise) between the entity that pays and the entity that receives the revenue (that is, the entities may agree on specific points in time at which the receiving entity can recognize revenue).

Rendering of Services

Housing

IG3. Rental income from the provision of housing is recognized as the income is earned in accordance with the terms of the tenancy agreement.

School Transport

IG4. Revenue from fares charged to passengers for the provision of school transport is recognized as the transport is provided.

Management of Toll Roads

IG5. Revenue from the management of toll roads is recognized as it is earned, based on the usage of the roads.

Processing of Court Cases

IG6. Revenue from the processing of court cases can be recognized either by reference to the stage of completion of the processing, or based on the periods during which the courts are in session.

Management of Facilities, Assets, or Services

IG7. Revenue from the management of facilities, assets, or services is recognized over the term of the contract as the management services are provided.

Science and Technology Research

IG8. Revenue received from clients from contracts for undertaking science and technology research is recognized by reference to the stage of completion on individual projects.

Installation Fees

IG9. Installation fees are recognized as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product, in which case they are recognized when the goods are sold.

Servicing Fees Included in the Price of the Product

IG10. When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support and product enhancement on the sale of software), that amount is deferred and recognized as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable return on those services.

Insurance Agency Commissions

IG11. Insurance agency commissions received or receivable that do not require the agent to render further service are recognized as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognized as revenue over the period during which the policy is in force.

Financial Service Fees

IG12. The recognition of revenue for financial service fees depends on (a) the purposes for which the fees are assessed, and (b) the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective yield of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

(a) **Fees that are an integral part of the effective interest rate of a financial instrument**

Such fees are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value with the change in fair value recognized in surplus or deficit, the fees are recognized as revenue when the instrument is initially recognized.

(i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under IPSAS 41 is classified as a financial asset "at fair value through surplus or deficit"*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related transaction costs (as defined in IPSAS 41), are deferred and recognized as an adjustment to the effective interest rate.

(ii) *Commitment fees received by the entity to originate a loan when the loan commitment is outside the scope of IPSAS 41*

If it is probable that the entity will enter into a specific lending arrangement and the loan commitment is not within the scope of IPSAS 41, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in IPSAS 41), is deferred and recognized as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognized as revenue on expiry. Loan commitments that are within the scope of IPSAS 41 are accounted for as derivatives and measured at fair value.

(iii) *Origination fees received on issuing financial liabilities measured at amortized cost*

These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified as "at fair value through surplus or deficit," the origination fees received are included, with the related transaction costs (as defined in IPSAS 41) incurred, in the initial carrying amount of the financial liability and recognized as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

(b) **Fees earned as services are provided**

(i) *Fees charged for servicing a loan*

Fees charged by an entity for servicing a loan are recognized as revenue as the services are provided.

(ii) *Commitment fees to originate a loan when the loan commitment is outside the scope of IPSAS 41*

If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of IPSAS 41, the commitment fee is recognized as revenue on a time proportion basis over the commitment period. Loan commitments that are within the scope of IPSAS 41 are accounted for as derivatives and measured at fair value.

(iii) *Investment management fees*

Fees charged for managing investments are recognized as revenue as the services are provided.

Incremental costs that are directly attributable to securing an investment management contract are recognized as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. As in IPSAS 41, an incremental cost is one that would not have been incurred if the entity had not secured the investment management contract. The asset represents the entity's contractual right to benefit from providing investment management services, and is amortized as the entity recognizes the related revenue. If the entity has a portfolio of investment management contracts, it may assess their recoverability on a portfolio basis.

Some financial services contracts involve both the origination of one or more financial instruments and the provision of investment management services. An example is a long-term monthly saving contract linked to the management of a pool of equity securities. The provider of the contract distinguishes the transaction costs relating to the origination of the financial instrument from the costs of securing the right to provide investment management services.

(c) **Fees that are earned on the execution of a significant act**

The fees are recognized as revenue when the significant act has been completed, as in the examples below.

(i) *Commission on the allotment of shares to a client*

The commission is recognized as revenue when the shares have been allotted.

(ii) *Placement fees for arranging a loan between a borrower and an investor*

The fee is recognized as revenue when the loan has been arranged.

(iii) *Loan syndication fees*

A syndication fee received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

Admission Fees

IG13. Revenue from artistic performances, banquets, and other special events is recognized when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each event on a basis that reflects the extent to which services are performed at each event.

Tuition Fees

IG14. Revenue is recognized over the period of instruction.

Initiation, Entrance, and Membership Fees

IG15. Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognized as revenue when no significant uncertainty as to its collectability exists. If the fee entitles the member to services or publications to be provided during the membership period, or to purchase goods or services at prices lower than those charged to non-members, it is recognized on a basis that reflects the timing, nature, and value of the benefits provided.

Franchise or Concession Fees

IG16. Franchise or concession fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise or concession fees are recognized as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise or concession fee recognition are appropriate:

(a) **Supplies of Equipment and Other Tangible Assets**

The amount, based on the fair value of the assets sold, is recognized as revenue when the items are delivered or title passes.

(b) **Supplies of Initial and Subsequent Services**

Fees for the provision of continuing services, whether part of the initial fee or a separate fee, are recognized as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable return, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable return on those services, is deferred and recognized as revenue as the services are rendered.

(c) **Continuing Franchise or Concession Fees**

Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognized as revenue as the services are provided or the rights used.

(d) **Agency Transactions**

Transactions may take place between the franchisor and the franchisee that, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no return. Such transactions do not give rise to revenue.

Fees from the Development of Customized Software

IG17. Fees from the development of customized software are recognized as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery service support.

Sale of Goods

"Bill and Hold" Sales, in Which Delivery is Delayed at the Purchaser's Request but the Purchaser Takes Title and Accepts Billing

IG18. Revenue is recognized when the purchaser takes title, provided:

(a) *It is probable that delivery will be made;*

(b) *The item is on hand, identified and ready for delivery to the purchaser at the time the sale is recognized;*

(c) *The purchaser specifically acknowledges the deferred delivery instructions; and*

(d) *The usual payment terms apply.*

Revenue is not recognized when there is simply an intention to acquire or manufacture the goods in time for delivery.

IG19. *Goods Shipped Subject to Conditions*

(a) **Installation and inspection**

Revenue is normally recognized when the purchaser accepts delivery, and installation and inspection are complete. However, revenue is recognized immediately upon the purchaser's acceptance of delivery when:

(i) The installation process is simple in nature; or

(ii) The inspection is performed only for purposes of final determination of contract prices.

(b) **On approval when the purchaser has negotiated a limited right of return**

If there is uncertainty about the possibility of return, revenue is recognized when the shipment has been formally accepted by the purchaser or the goods have been delivered and the time period for rejection has elapsed.

(c) **Consignment sales under which the recipient (purchaser) undertakes to sell the goods on behalf of the shipper (seller)**

Revenue is recognized by the shipper when the goods are sold by the recipient to a third party.

(d) **Cash on delivery sales**

Revenue is recognized when delivery is made and cash is received by the seller or its agent.

Layaway Sales under Which the Goods are Delivered only when the Purchaser Makes the Final Payment in a Series of Installments

IG20. Revenue from such sales is recognized when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognized when a significant deposit is received, provided the goods are on hand, identified, and ready for delivery to the purchaser.

Orders When Payment (or Partial Payment) is Received in Advance of Delivery for Goods Not Presently Held in Inventory; For Example, the Goods are Still to be Manufactured or will be Delivered Directly to the Customer from a Third Party

IG21. Revenue is recognized when the goods are delivered to the purchaser.

Sale And Repurchase Agreements (Other than Swap Transactions) under Which the Seller Concurrently Agrees to Repurchase the Same Goods at a Later Date, or when the Seller has a Call Option to Repurchase, or the Purchaser has a Put Option to Require the Repurchase by the Seller of the Goods

IG22. The terms of the agreement need to be analyzed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the purchaser, and hence revenue is recognized. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.

Sales to Intermediate Parties, Such as Distributors, Dealers, or Others for Resale

IG23. Revenue from such sales is generally recognized when the risks and rewards of ownership have passed. However, when the purchaser is acting, in substance, as an agent, the sale is treated as a consignment sale.

Subscriptions to Publications and Similar Items

IG24. When the items involved are of similar value in each time period, revenue is recognized on a straight line basis over the period in which the items are dispatched. When the items vary in value from period to period, revenue is recognized on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

Installment Sales, under Which the Consideration is Receivable in Installments

IG25. Revenue attributable to the sales price, exclusive of interest, is recognized at the date of sale. The sale price is the present value of the consideration, determined by discounting the installments receivable at the imputed rate of interest. The interest element is recognized as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

Real Estate Sales

IG26. Revenue is normally recognized when legal title passes to the purchaser. However, in some jurisdictions the equitable interest in a property may vest in the purchaser before legal title passes, and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognize revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognized as the acts are performed. An example is a building or other facility on which construction has not been completed.

IG27. In some cases, real estate may be sold with a degree of continuing involvement by the seller, such that the risks and rewards of ownership have not been transferred. Examples are (a) sale and repurchase agreements that include put and call options, and (b) agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the purchaser's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing, or some other profit-sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

IG28. A seller must also consider the means of payment and evidence of the purchaser's commitment to complete payment. For example, when the aggregate of the payments received, including the purchaser's initial down payment, or continuing payments by the purchaser, provide insufficient evidence of the purchaser's commitment to complete payment, revenue is recognized only to the extent cash is received.

Interest, Royalties, and Dividends or Similar Distributions

License Fees and Royalties

IG29. Fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software, music copyright, record masters, and motion picture films) are normally recognized in accordance with the substance of the agreement. As a practical matter, this may be on a straight-line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

IG30. An assignment of rights for a fixed fee or non-refundable guarantee under a non-cancelable contract that (a) permits the licensee to exploit those rights freely and (b) the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations subsequent to delivery. Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognized at the time of sale.

IG31. In some cases, whether or not a license fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognized only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

Recognition and Measurement

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

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

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

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

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

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

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

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

COMPARISON WITH IAS 18

IPSAS 9, *Revenue from Exchange Transactions* is drawn primarily from IAS 18, *Revenue*. The main differences between IPSAS 9 and IAS 18 are as follows:

- The title of IPSAS 9 differs from that of IAS 18, and this difference clarifies that IPSAS 9 does not deal with revenue from non-exchange transactions.
- The definition of "revenue" adopted in IPSAS 9 is similar to the definition adopted in IAS 18. The main difference is that the definition in IAS 18 refers to ordinary activities.
- IPSAS 9 uses different terminology, in certain instances, from IAS 18. The most significant example is the use of the term "net assets/equity" in IPSAS 9. The equivalent term in IAS 18 is "equity."

IPSAS 10—FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 29 (Reformatted 1994), *Financial Reporting in Hyperinflationary Economies*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 29 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 10—FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 10, *Financial Reporting in Hyperinflationary Economies* was issued in July 2001.

Since then, IPSAS 10 has been amended by the following IPSAS:

- IPSAS 46, *Measurement* (issued May 2023)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (issued December 2006)

Table of Amended Paragraphs in IPSAS 10

Paragraph Affected	How Affected	Affected By
Heading above 1	New	*Improvements to IPSAS* October 2011
1	New	*Improvements to IPSAS* October 2011
1A	Amended – Existing paragraph 1 renumbered to 1A	*Improvements to IPSAS* October 2011 *Improvements to IPSAS* October 2018
1	Amended	IPSAS 4 December 2006
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
9	Amended	*Improvements to IPSAS* October 2018
11	Amended	IPSAS 4 December 2006
17	Amended	*Improvements to IPSAS* January 2010
18	Amended	*Improvements to IPSAS* January 2010
20	Amended	IPSAS 4 December 2006
22	Amended	*Improvements to IPSAS* January 2010 IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
26[1]	Deleted	IPSAS 4 December 2006
28	Amended	*Improvements to IPSAS* November 2010
29	Amended	*Improvements to IPSAS* November 2010
31	Amended	IPSAS 46 May 2023
33	Amended	IPSAS 4 December 2006
36	Amended	IPSAS 4 December 2006
38A	New	*Improvements to IPSAS* January 2010
38B	New	*Improvements to IPSAS* October 2011
38C	New	IPSAS 33 January 2015
38D	New	*The Applicability of IPSAS* April 2016
38E	New	IPSAS 40 January 2017
38F	New	*Improvements to IPSAS* October 2018
38G	New	IPSAS 46 May 2023
39	Amended	IPSAS 33 January 2015

[1] Subsequent paragraphs have been renumbered.

July 2001

IPSAS 10—FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

CONTENTS

International Public Sector Accounting Standard 10, *Financial Reporting in Hyperinflationary Economies*, is set out in paragraphs 1−39. All the paragraphs have equal authority. IPSAS 10 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting* by Public Sector Entities. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance

Objective

1. The objective of this Standard is to prescribe the accounting treatment in the consolidated and individual financial statements of an entity whose functional currency is the currency of a hyperinflationary economy. The Standard also specifies the accounting treatment where the economy ceases to be hyperinflationary.

Scope

1A. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.**

2. [Deleted]

3. [Deleted]

4. In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same reporting period, is misleading.

5. This Standard does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

    (a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.

    (b) The general population regards monetary amounts, not in terms of the local currency, but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.

    (c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.

    (d) Interest rates, wages, and prices are linked to a price index.

    (e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

6. It is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date. Nevertheless, this Standard applies to the financial statements of any entity from the beginning of the reporting period in which it identifies the existence of hyperinflation in the country in whose currency it reports.

Definitions

7. The following terms are used in this Standard with the meanings specified:

    <u>Carrying amount of an asset</u> is the amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.

    <u>Carrying amount of a</u> liability is the amount at which a liability is recognized in the statement of financial position.

    <u>Non-monetary items</u> are items that are not monetary items.

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.

The Restatement of Financial Statements

8. Prices change over time as the result of various specific or general political, economic, and social forces. Specific forces such as changes in supply and demand and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general forces may result in changes in the general level of prices, and therefore in the general purchasing power of money.

9. In a hyperinflationary economy, financial statements are useful only if they are expressed in terms of the measuring unit current at the reporting date. As a result, this Standard applies to the financial statements of entities reporting in the currency of a hyperinflationary economy. Presentation of the information required by this Standard as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.

10. Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, the budgetary information should also be restated in accordance with this Standard.

11. **The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the reporting date. The corresponding figures for the previous period required by IPSAS 1, and any information in respect of earlier periods, shall also be stated in terms of the measuring unit current at the reporting date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, apply.**

12. **The surplus or deficit on the net monetary position shall be separately disclosed in the statement of financial performance.**

13. The restatement of financial statements in accordance with this Standard requires the application of certain procedures as well as judgment. The consistent application of these procedures and judgments from period to period is more important than the precise accuracy of the resulting amounts, included in the restated financial statements.

Statement of Financial Position

14. Statement of financial position amounts not already expressed in terms of the measuring unit current at the reporting date are restated by applying a general price index.

15. Monetary items are not restated, because they are already expressed in terms of the monetary unit current at the reporting date. Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

16. Assets and liabilities linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the reporting date. These items are carried at this adjusted amount in the restated statement of financial position.

17. All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the reporting date, such as net realizable value and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.

18. Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the

date of acquisition to the reporting date. For example, property, plant and equipment, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.

19. Detailed records of the acquisition dates of items of property, plant, and equipment may not be available or able to be estimated. In these circumstances, it may be necessary, in the first period of application of this Standard, to use an independent professional assessment of the value of the items as the basis for their restatement.

20. A general price index may not be available for the periods for which the restatement of property, plant, and equipment is required by this Standard. In these circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.

21. Some non-monetary items are carried at amounts current at dates other than that of acquisition or that of the statement of financial position, for example, property, plant, and equipment that has been revalued at some earlier date. In these cases, the carrying amounts are restated from the date of the revaluation.

22. To determine whether the restated amount of a non-monetary item has become impaired and should be reduced an entity applies relevant impairment tests in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, Impairment of Cash-Generating Assets. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount where appropriate, and restated amounts of inventories are reduced to net realizable value or current replacement cost. An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The statement of financial position and statement of financial performance of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets/equity and surplus or deficit. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

23. The impact of inflation is usually recognized in borrowing costs. It is not appropriate both to restate the capital expenditure financed by borrowing, and to capitalize that part of the borrowing costs that compensates for the inflation during the same period. This part of the borrowing costs is recognized as an expense in the period in which the costs are incurred.

24. An entity may acquire assets under an arrangement that permits it to defer payment without incurring an explicit interest charge. Where it is impracticable to impute the amount of interest, such assets are restated from the payment date and not the date of purchase.

25. At the beginning of the first period of application of this Standard, the components of net assets/equity, except accumulated surpluses/deficits and any revaluation reserve, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation reserve that arose in previous periods is eliminated. Restated accumulated surpluses/deficits are derived from all the other amounts in the restated statement of financial position.

26. At the end of the first period and in subsequent periods, all components of net assets/equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The movements for the period in net assets/equity are disclosed in accordance with IPSAS 1.

Statement of Financial Performance

27. This Standard requires that all items in the statement of financial performance are expressed in terms of the measuring unit current at the reporting date. Therefore all amounts need to be restated by applying the

change in the general price index from the dates when the items of revenue and expenses were initially recorded.

Gain or Loss on Net Monetary Position

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

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

Cash Flow Statement

30. This Standard requires that all items in the cash flow statement are expressed in terms of the measuring unit current at the reporting date.

Corresponding Figures

31. Corresponding figures for the previous reporting period, whether they were based on an historical cost model or a current value model, are restated by applying a general price index, so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4 apply.

Consolidated Financial Statements

32. A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. The financial statements of any such controlled entity need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where such a controlled entity is a foreign-controlled entity, its restated financial statements are translated at closing rates. The financial statements of controlled entities that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IPSAS 4.

33. If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statements.

Selection and Use of the General Price Index

34. The restatement of financial statements in accordance with this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

Economies Ceasing to be Hyperinflationary

35. **When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this Standard, it shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.**

Disclosures

36. **The following disclosures shall be made:**

    (a) **The fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and**

    (b) **The identity and level of the price index at the reporting date, and the movement in the index during the current and the previous reporting periods.**

37. The disclosures required by this Standard are needed to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

Effective Date

38. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2002. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2002, it shall disclose that fact.**

38A. **Paragraphs 17, 18, and 22 were amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged.**

38B. **Existing paragraph 1 was renumbered to 1A and a new paragraph 1 was inserted by *Improvements to IPSAS 2011* issued in October 2011. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**

38C. **Paragraph 39 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

38D. **Paragraphs 2 and 3 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

38E. **Paragraph 22 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

38F. **Paragraphs 1A and 9 were amended by *Improvements to IPSAS*, 2018, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

38G. **Paragraph 31 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

39. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 10.

Revision of IPSAS 10 as a result of the IASB's *Improvements to IFRS* issued in 2008

BC1. The IPSASB reviewed the revisions to IAS 29 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 10 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC2. 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 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 10 as a result of *Improvements to IPSAS, 2018*

BC3. Paragraphs 1A and 9 referred to the "primary financial statements." Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term "financial statements" is used elsewhere in IPSAS with the same meaning. Similarly, IAS 29, *Financial Reporting in Hyperinflationary Economies*, uses the term "financial statements" rather than "primary financial statements" in its equivalent paragraphs. Consequently the IPSASB agreed to standardize the terminology and to replace the term "primary financial statements" with the term "financial statements" wherever this term occurred.

Illustrative Example

This example accompanies, but is not part of, IPSAS 10.

IE1. This Standard sets out the requirements for the restatement of financial statements, including the consolidated financial statements, of entities reporting in the currency of a hyperinflationary economy.

IE2. The following example illustrates the process for restatement of financial statements. In preparing this illustration:

- The gain on net monetary position for the period was indirectly derived as the difference resulting from the restatement of non-monetary assets and liabilities, accumulated gains or losses, and items in the statement of financial performance (see paragraph 28).
- Inventory on hand at the end of the reporting period was assumed to have been acquired later in the reporting period, when the general inflation index was 170.
- The general price index was 120 at the beginning of the period, 180 at the end of the period, and it averaged 150 during the period.
- Revenue and expenses, other than depreciation, are assumed to accrue evenly throughout the reporting period.
- Assets whose historical cost was 7,500 were completely depreciated and scrapped; their salvage value was zero.

Financial Reporting Under Hyperinflation

Example

Statement of Financial Position	**1.1.X0 (Per IPSAS 10)**	**31.12.X0 (Un-adjusted)**	**Indexation Factor**	**31.12.X0 (Per IPSAS 10)**		**Gain/Loss on Net Monetary Position**
Cash and investments	5,000	10,000	–	10,000		–
Inventories	–	2,000	180/170	2,118	*Restated*	118
Physical assets:						
Historical cost	47,500	40,000	180/120	60,000		20,000
Accum. depreciation	(22,500)	(20,000)	180/120	(30,000)		(10,000)
Net book value	25,000	20,000	180/120	30,000	*Restated*	10,000
Total Assets	30,000	32,000		42,118		
Borrowings	26,000	26,000	–	26,000		
Net Assets						
Brought forward	4,000	4,000	180/120	6,000	*Restated*	(2,000)
Net surplus for period (see below)		2,000	See below	10,118		1,100
	4,000	**6,000**		**16,118**		**9,218**
Statement of Financial Performance						
Revenues		50,000	180/150	60,000	*Restated*	10,000
Depreciation		(5,000)	180/120	(7,500)	*Restated*	(2,500)
Other expenses		(43,000)	180/150	(51,600)	*Restated*	(8,600)
Gain on net monetary position				9,218		
Surplus for the year		**2,000**		**10,118**		**(1,100)**

NB: This Standard (paragraph 27) requires that statement of financial performance items be restated using the movement in the index from the dates that the transactions were recorded. In this example, items of revenue and expense, other than depreciation, accrue evenly over the reporting period, and an average inflation rate has been applied. The gain on net monetary position has been derived indirectly (see final column) by applying the general price index to the non-monetary items in the statement of financial position and the statement of financial performance (paragraph 28).

COMPARISON WITH IAS 29

IPSAS 10, Financial Reporting in Hyperinflationary Economies is drawn primarily from IAS 29, *Financial Reporting in Hyperinflationary Economies* and includes amendments made to IAS 29 as part of the *Improvements to IFRS* issued in May 2008. The main differences between IPSAS 10 and IAS 29 are as follows:

- IPSAS 10 uses different terminology, in certain instances, from IAS 29. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 10. The equivalent terms in IAS 29 are "income," "income statement," and "equity."
- IAS 29 contains guidance on the restatement of current cost financial statements. IPSAS 10 does not include this guidance.
- IPSAS 10 contains an illustrated example that illustrates the process of the restating of financial statements, using an indirect method, of an entity reporting in the currency of a hyperinflationary economy.

IPSAS 11—CONSTRUCTION CONTRACTS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 11 (Revised 1993), *Construction Contracts*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 11 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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Internet: www.ifrs.org

IPSAS 11—CONSTRUCTION CONTRACTS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 11, *Construction Contracts* was issued in July 2001.

Since then, IPSAS 11 has been amended by the following IPSAS:

- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSAS) (issued January 2015)

Table of Amended Paragraphs in IPSAS 11

Paragraph Affected	How Affected	Affected By
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
30	Amended	*Improvements to IPSAS* April 2016
45	Amended	*The Applicability of IPSAS* April 2016
57A	New	IPSAS 33 January 2015
57B	New	*The Applicability of IPSAS* April 2016
58	Amended	IPSAS 33 January 2015

July 2001

IPSAS 11—CONSTRUCTION CONTRACTS

CONTENTS

International Public Sector Accounting Standard 11, *Construction Contracts*, is set out in the objective and paragraphs 1–58. All the paragraphs have equal authority. IPSAS 11 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to prescribe the accounting treatment of costs and revenue associated with construction contracts. The Standard:

- Identifies the arrangements that are to be classified as construction contracts;
- Provides guidance on the types of construction contracts that can arise in the public sector; and
- Specifies the basis for recognition and disclosure of contract expenses and, if relevant, contract revenues.

Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different reporting periods.

In many jurisdictions, construction contracts entered into by public sector entities will not specify an amount of contract revenue. Rather, funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue, or by aid or grant funds. In these cases, the primary issue in accounting for construction contracts is the (a) allocation of construction costs to the reporting period in which the construction work is performed, and (b) the recognition of related expenses.

In some jurisdictions, construction contracts entered into by public sector entities may be established on a commercial basis or a noncommercial full or partial cost recovery basis. In these cases, the primary issue in accounting for construction contracts is the allocation of both contract revenue and contract costs to the reporting periods in which construction work is performed.

Scope

1. **A contractor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for construction contracts.**

2. [Deleted]

3. [Deleted]

Definitions

4. **The following terms are used in this Standard with the meanings specified:**

   <u>Construction contract</u> is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.

   <u>Contractor</u> is an entity that performs construction work pursuant to a construction contract.

   <u>Cost plus or cost-based contract</u> is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially based contract, an additional percentage of these costs or a fixed fee, if any.

   <u>Fixed price contract</u> is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

   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.

Construction Contracts

5. A construction contract (the terms construction contract and contract are used interchangeably in the remainder of this Standard) may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship, or tunnel. A construction contract may also deal with the construction of

a number of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use – examples of such contracts include those for the construction of reticulated water supply systems, refineries, and other complex infrastructure assets.

6. For the purposes of this Standard, construction contracts include:

   (a) Contracts for the rendering of services that are directly related to the construction of the asset, for example, those for the services of project managers and architects; and

   (b) Contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

7. For the purposes of this Standard, construction contracts also include all arrangements that are binding on the parties to the arrangement, but which may not take the form of a documented contract. For example, two government departments may enter into a formal arrangement for the construction of an asset, but the arrangement may not constitute a legal contract because, in that jurisdiction, individual departments may not be separate legal entities with the power to contract. However, provided that the arrangement confers similar rights and obligations on the parties to it as if it were in the form of a contract, it is a construction contract for the purposes of this Standard. Such binding arrangements could include (but are not limited to) a ministerial direction, a cabinet decision, a legislative direction (such as an Act of Parliament), or a memorandum of understanding.

8. Construction contracts are formulated in a number of ways that, for the purposes of this Standard, are classified as fixed price contracts and cost plus or cost-based contracts. Some commercial construction contracts may contain characteristics of both a fixed price contract and a cost plus or cost-based contract, for example in the case of a cost plus or cost-based contract with an agreed maximum price. In such circumstances, a contractor needs to consider all the conditions in paragraphs 31 and 32 in order to determine when to recognize contract revenue and expenses.

9. Cost plus and cost-based contracts encompass both commercial and non-commercial contracts. A commercial contract will specify that revenue to cover the agreed constructor's construction costs and generate a profit margin will be provided by the other parties to the contract. However, a public sector entity may also enter into a noncommercial contract to construct an asset for another entity in return for full or partial reimbursement of costs from that entity or other parties. In some cases, the cost recovery may encompass payments by the recipient entity and specific purpose construction grants or funding from other parties.

10. In many jurisdictions, where one public sector entity constructs assets for another public sector entity, the cost of construction activity is not recovered directly from the recipient. Rather, the construction activity is funded indirectly (a) by way of a general appropriation or other allocation of general government funds to the contractor, or (b) from general purpose grants from third party funding agencies or other governments. These are classified as fixed price contracts for the purpose of this Standard.

Contractor

11. A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity. The term "contractor" includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

Combining and Segmenting Construction Contracts

12. The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a

single contract, or to a group of contracts together, in order to reflect the substance of a contract or a group of contracts.

13. **When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:**

(a) **Separate proposals have been submitted for each asset;**

(b) **Each asset has been subject to separate negotiation, and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and**

(c) **The costs and revenues of each asset can be identified.**

14. **A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:**

(a) **The group of contracts is negotiated as a single package;**

(b) **The contracts are so closely interrelated that they are, in effect, part of a single project with an overall margin, if any; and**

(c) **The contracts are performed concurrently or in a continuous sequence.**

15. **A contract may provide for the construction of an additional asset at the option of the customer, or may be amended to include the construction of an additional asset. The construction of the additional asset shall be treated as a separate construction contract when:**

(a) **The asset differs significantly in design, technology, or function from the asset or assets covered by the original contract; or**

(b) **The price of the asset is negotiated without regard to the original contract price.**

Contract Revenue

16. **Contract revenue shall comprise:**

(a) **The initial amount of revenue agreed in the contract; and**

(b) **Variations in contract work, claims, and incentive payments to the extent that:**

(i) **It is probable that they will result in revenue; and**

(ii) **They are capable of being reliably[1] measured.**

17. Contract revenue is measured at the fair value of the consideration received or receivable. Both the initial and ongoing measurement of contract revenue are affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Where a contract is a cost plus or cost-based contract, the initial amount of revenue may not be stated in the contract. Instead, it may need to be estimated on a basis consistent with the terms and provisions of the contract, such as by reference to expected costs over the life of the contract.

18. In addition, the amount of contract revenue may increase or decrease from one period to the next. For example:

(a) A contractor and a customer may agree to variations or claims that increase or decrease contract revenue in a period subsequent to that in which the contract was initially agreed;

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1 Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

(b) The amount of revenue agreed in a fixed price, cost plus, or cost-based contract may increase as a result of cost escalation or other clauses;

(c) The amount of contract revenue may decrease as a result of penalties arising from delays caused by the contractor in the completion of the contract; or

(d) When a fixed price contract involves a fixed price per unit of output, contract revenue increases or decreases as the number of units is increased or decreased.

19. A variation is an instruction by the customer for a change in the scope of the work to be performed under the contract. A variation may lead to an increase or a decrease in contract revenue. Examples of variations are changes in the specifications or design of the asset, and changes in the duration of the contract. A variation is included in contract revenue when:

(a) It is probable that the customer will approve the variation and the amount of revenue arising from the variation; and

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

20. A claim is an amount that the contractor seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. A claim may arise from, for example, customer-caused delays, errors in specifications or design, and disputed variations in contract work. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty, and often depends on the outcome of negotiations. Therefore, claims are only included in contract revenue when:

(a) Negotiations have reached an advanced stage, such that it is probable that the customer will accept the claim; and

(b) The amount that it is probable will be accepted by the customer can be measured reliably.

21. Incentive payments are additional amounts paid to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when:

(a) The contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and

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

22. Contractors should review all amounts relating to the construction contract that are paid directly to subcontractors by third party funding agencies, to determine whether they meet the definition of, and recognition criteria for, revenue of the contractor under the terms of the contract. Amounts meeting the definition and recognition criteria for revenue should be accounted for by the contractor in the same way as other contract revenue. Such amounts should also be recognized as contract costs (see paragraph 25). Funding agencies may include national and international aid agencies and multilateral and bilateral development banks.

Contract Costs

23. **Contract costs shall comprise:**

(a) **Costs that relate directly to the specific contract;**

(b) **Costs that are attributable to contract activity in general, and can be allocated to the contract on a systematic and rational basis; and**

(c) **Such other costs as are specifically chargeable to the customer under the terms of the contract.**

24. Costs that relate directly to a specific contract include:

(a) Site labor costs, including site supervision;

(b) Costs of materials used in construction;

(c) Depreciation of plant and equipment used on the contract;

(d) Costs of moving plant, equipment, and materials to and from the contract site;

(e) Costs of hiring plant and equipment;

(f) Costs of design and technical assistance that are directly related to the contract;

(g) The estimated costs of rectification and guarantee work, including expected warranty costs; and

(h) Claims from third parties.

These costs may be reduced by any incidental revenue that is not included in contract revenue, for example, revenue from the sale of surplus materials at the end of the contract.

25. Contractors should review all amounts relating to the construction contract paid directly by subcontractors and which are reimbursed by third party funding agencies, to determine whether they qualify as contract costs. Amounts meeting the definition of, and recognition criteria for, contract expenses should be accounted for by the contractor in the same way as other contract expenses. Amounts reimbursed by third party funding agencies that meet the definition of, and recognition criteria for, revenue should be accounted for by the contractor in the same way as other contract revenue (see paragraph 22).

26. Costs that may be attributable to contract activity in general and can be allocated to specific contracts include:

(a) Insurance;

(b) Costs of design that are not directly related to a specific contract; and

(c) Construction overheads.

Such costs are allocated using methods that (a) are systematic and rational, and (b) are applied consistently to all costs having similar characteristics. The allocation is based on the normal level of construction activity. Construction overheads include costs such as the preparation and processing of construction personnel payroll. Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs when the contractor adopts the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.

27. Costs that are specifically chargeable to the customer under the terms of the contract may include some general administration costs and development costs for which reimbursement is specified in the terms of the contract.

28. Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract. Such costs include:

(a) General administration costs for which reimbursement is not specified in the contract;

(b) Selling costs;

(c) Research and development costs for which reimbursement is not specified in the contract; and

(d) Depreciation of idle plant and equipment that is not used on a particular contract.

29. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. However, costs that relate directly to a contract and that are incurred

in securing the contract are also included as part of the contract costs, if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognized as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

Recognition of Contract Revenue and Expenses

30. **When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected deficit on a construction contract to which paragraph 44 applies shall be recognized as an expense immediately in accordance with paragraph 44.**

31. **In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:**

    (a) **Total contract revenue, if any, can be measured reliably;**

    (b) **It is probable that the economic benefits or service potential associated with the contract will flow to the entity;**

    (c) **Both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and**

    (d) **The contract costs attributable to the contract can be clearly identified and measured reliably, so that actual contract costs incurred can be compared with prior estimates.**

32. **In the case of a cost plus or cost-based contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:**

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

    (b) **The contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.**

33. The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses, and surplus/deficit that can be attributed to the proportion of work completed. This method provides useful information on the extent of contract activity and performance during a period.

34. Under the percentage of completion method, contract revenue is recognized as revenue in the statement of financial performance in the reporting periods in which the work is performed. Contract costs are usually recognized as an expense in the statement of financial performance in the reporting periods in which the work to which they relate is performed. However, where it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract, any expected excess of total contract costs over total contract revenue for the contract is recognized as an expense immediately in accordance with paragraph 44.

35. A contractor may have incurred contract costs that relate to future activity on the contract. Such contract costs are recognized as an asset, provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.

36. The outcome of a construction contract can only be estimated reliably when it is probable that the economic benefits or service potential associated with the contract will flow to the entity. However, when an uncertainty

arises about the collectability of an amount already included in contract revenue, and already recognized in the statement of financial performance, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognized as an expense rather than as an adjustment of the amount of contract revenue.

37. An entity is generally able to make reliable estimates after it has agreed to a contract that establishes:

(a) Each party's enforceable rights regarding the asset to be constructed;

(b) The consideration, if any, to be exchanged; and

(c) The manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of contract revenue and contract costs as the contract progresses. The need for such revisions does not necessarily indicate that the outcome of the contract cannot be estimated reliably.

38. The stage of completion of a contract may be determined in a variety of ways. The entity uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:

(a) The proportion that contract costs incurred for work performed to date bear to the estimated total contract costs;

(b) Surveys of work performed; or

(c) Completion of a physical proportion of the contract work.

Progress payments and advances received from customers often do not reflect the work performed.

39. When the stage of completion is determined by reference to the contract costs incurred to date, only those contract costs that reflect work performed are included in costs incurred to date. Examples of contract costs that are excluded are:

(a) Contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract, but not yet installed, used, or applied during contract performance, unless the materials have been made especially for the contract; and

(b) Payments made to subcontractors in advance of work to be performed under the subcontract.

40. **When the outcome of a construction contract cannot be estimated reliably:**

(a) **Revenue shall be recognized only to the extent of contract costs incurred that it is probable will be recoverable; and**

(b) **Contract costs shall be recognized as an expense in the period in which they are incurred.**

An expected deficit on a construction contract to which paragraph 44 applies shall be recognized as an expense immediately in accordance with paragraph 44.

41. During the early stages of a contract, it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the contract costs incurred. Therefore, contract revenue is recognized only to the extent of costs incurred that are expected to be recoverable. As the outcome of the contract cannot be estimated reliably, no surplus or deficit is recognized. However, even though the outcome of the contract cannot be estimated reliably, it may be probable that total contract costs will exceed total contract revenues. In such cases, any expected excess of total contract costs over total contract revenues for the contract is recognized as an expense immediately in accordance with paragraph 44.

42. Where contract costs that are to be reimbursed by parties to the contract are not probable of being recovered, they are recognized as an expense immediately. Examples of circumstances in which the recoverability of contract costs incurred may not be probable, and in which contract costs may need to be recognized as an expense immediately, include contracts:

(a) That are not fully enforceable, that is, their validity is seriously in question;

(b) The completion of which is subject to the outcome of pending litigation or legislation;

(c) Relating to properties that are likely to be condemned or expropriated;

(d) Where the customer is unable to meet its obligations; or

(e) Where the contractor is unable to complete the contract or otherwise meet its obligations under the contract.

43. **When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue and expenses associated with the construction contract shall be recognized in accordance with paragraph 30 rather than in accordance with paragraph 40.**

Recognition of Expected Deficits

44. **In respect of construction contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract, when it is probable that total contract costs will exceed total contract revenue, the expected deficit shall be recognized as an expense immediately.**

45. Public sector entities may enter into construction contracts that specify that the revenue intended to cover the construction costs will be provided by the other parties to the contract. This may occur where, for example:

(a) Government departments and agencies that are largely dependent on appropriations or similar allocations of government revenue to fund their operations are also empowered to contract with commercial public sector entities or private sector entities for the construction of assets on a commercial or full cost recovery basis; or

(b) Government departments and agencies transact with each other on an arm's length or commercial basis as may occur under a "purchaser-provider" or similar model of government.

In these cases, an expected deficit on a construction contract is recognized immediately in accordance with paragraph 44.

46. As noted in paragraph 9, in some cases a public sector entity may enter into a construction contract for less than full cost recovery from the other parties to the contract. In these cases, funding in excess of that specified in the construction contract will be provided from an appropriation or other allocation of government funds to the contractor, or from general purpose grants from third party funding agencies or other governments. The requirements of paragraph 44 do not apply to these construction contracts.

47. In determining the amount of any deficit under paragraph 44, total contract revenue and total contract costs may include payments made directly to subcontractors by third party funding agencies in accordance with paragraphs 22 and 25.

48. The amount of such a deficit is determined irrespective of:

(a) Whether or not work has commenced on the contract;

(b) The stage of completion of contract activity; or

(c) The amount of surpluses expected to arise on other commercial construction contracts that are not treated as a single construction contract in accordance with paragraph 14.

Changes in Estimates

49. The percentage of completion method is applied on a cumulative basis in each reporting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate (see IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.)* The changed estimates are used in the determination of the amount of revenue and expenses recognized in the statement of financial performance in the period in which the change is made and in subsequent periods.

Disclosure

50. **An entity shall disclose:**

(a) **The amount of contract revenue recognized as revenue in the period;**

(b) **The methods used to determine the contract revenue recognized in the period; and**

(c) **he methods used to determine the stage of completion of contracts in progress.**

51. **An entity shall disclose each of the following for contracts in progress at the reporting date:**

(a) **The aggregate amount of costs incurred and recognized surpluses (less recognized deficits) to date;**

(b) **The amount of advances received; and**

(c) **The amount of retentions.**

52. Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts, or until defects have been rectified. Progress billings are amounts of contract revenue billed for work performed on a contract, whether or not they have been paid by the customer. Advances are amounts of contract revenue received by the contractor before the related work is performed.

53. **An entity shall present:**

(a) **The gross amount due from customers for contract work as an asset; and**

(b) **The gross amount due to customers for contract work as a liability.**

54. The gross amount due from customers for contract work is the net amount of:

(a) Costs incurred plus recognized surpluses; less

(b) The sum of recognized deficits and progress billings for all contracts in progress for which costs incurred plus recognized surpluses to be recovered by way of contract revenue (less recognized deficits) exceed progress billings.

55. The gross amount due to customers for contract work is the net amount of:

(a) Costs incurred plus recognized surpluses; less

(b) The sum of recognized deficits and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognized surpluses to be recovered by way of contract revenue (less recognized deficits).

56. Guidance on the disclosure of contingent liabilities and contingent assets can be found in IPSAS 19, Provisions, *Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise from such items as warranty costs, claims, penalties, or possible losses.

Effective Date

57. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2002. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2002, it shall disclose that fact.**

57A. **Paragraph 58 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

57B. **Paragraphs 2 and 3 were deleted and paragraph 45 was amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

58. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 11.

Revision of IPSAS 11 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC1. 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 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.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 11.

Disclosure of Accounting Policies

IG1. The following are examples of accounting policy disclosures for a department that enters noncommercial construction contracts with other government agencies for full, partial, or no cost recovery from the other parties to the contract. The department is also empowered to enter into commercial construction contracts with commercial public sector entities and private sector entities, and to enter full cost recovery construction contracts with certain state hospitals and state universities.

Noncommercial Contracts

IG2. Contract costs are recognized as an expense on the percentage of completion method, measured by reference to the percentage of labor hours incurred to date to estimated total labor hours for each contract. In some cases, certain construction activity and technical supervision have been subcontracted to private sector contractors for a fixed "completion of contract" fee. Where this has occurred, the subcontracted costs are recognized as an expense on the percentage of completion method for each subcontract.

IG3. Contract revenue from full cost recovery contracts and partial cost recovery contracts entered into by the Department is recognized by reference to the recoverable costs incurred during the period, measured by the proportion that recoverable costs incurred to date bear to the estimated total recoverable costs of the contract.

Commercial Contracts

IG4. Revenue from fixed price construction contracts is recognized on the percentage of completion method, measured by reference to the percentage of labor hours incurred to date to estimated total labor hours for each contract.

IG5. Revenue from cost plus or cost-based contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

The Determination of Contract Revenue and Expenses

IG6. The following examples deal with a noncommercial and a commercial construction contract. The examples illustrate one method of determining the stage of completion of a contract and the timing of the recognition of contract revenue and expenses (see paragraphs 30–43 of this Standard).

Noncommercial Contracts

IG7. The Department of Works and Services (the construction contractor) has a contract to build a bridge for the Department of Roads and Highways. The Department of Works and Services is funded by appropriation. The construction contract identifies construction requirements, including anticipated costs, technical specifications, and timing of completion, but does not provide for any recovery of construction costs directly from the Department of Roads and Highways. The construction contract is a key management planning and accountability document attesting to the design and construction qualities of the bridge. It is used as input in assessing the performance of the contracting parties in delivering services of agreed technical specification within projected cost parameters. It is also used as input to future cost projections.

IG8. The initial estimate of contract costs is 8,000. It will take three years to build the bridge. An aid agency has agreed to provide funding of 4,000, being half of the construction costs – this is specified in the construction contract.

IG9. By the end of Year 1, the estimate of contract costs has increased to 8,050. The aid agency agrees to fund half of this increase in estimated costs.

IG10. In Year 2, the Government on the advice of the Department of Roads and Highways approves a variation resulting in estimated additional contract costs of 150. The aid agency agrees to fund 50% of this variation. At the end of Year 2, costs incurred include 100 for standard materials stored at the site to be used in Year 3 to complete the project.

IG11. The Department of Works and Services determines the stage of completion of the contract by calculating the proportion that contract costs incurred for work performed to date bear to the latest estimated total contract costs.

IG12. A summary of the financial data during the construction period is as follows:

	Year 1	**Year 2**	**Year 3**
Initial amount of revenue agreed in contract	4,000	4,000	4,000
Variation	–	100	100
Total Contract Revenue	4,000	4,100	4,100
Contract costs incurred to date	2,093	6,168	8,200
Contract costs to complete	5,957	2,032	–
Total estimated contract costs	8,050	8,200	8,200
Stage of completion	26%	74%	100%

IG13. The stage of completion for Year 2 (74%) is determined by excluding from contract costs incurred for work performed to date the 100 for standard materials stored at the site for use in Year 3.

IG14. The amounts of contract revenue and expenses recognized in the statement of financial performance in the three years are as follows:

	To Date	**Recognized in prior years**	**Recognized in current year**
Year 1			
Revenue (4,000 × .26)	1,040		1,040
Expenses (8,050 × .26)	2,093		2,093
Year 2			
Revenue (4,100 × .74)	3,034	1,040	1,994
Expenses (8,200 × .74)	6,068	2,093	3,975
Year 3			
Revenue (4,100 × 1.00)	4,100	3,034	1,066
Expenses (8,200 × 1.00)	8,200	6,068	2,132

Commercial Contracts

IG15. The Department of Works and Services (the contractor), while predominantly funded by appropriation, is empowered to undertake limited construction work on a commercial basis for private sector entities. With the authority of the Minister, the Department has entered a fixed price commercial contract for 9,000 to build a bridge.

IG16. The initial amount of revenue agreed in the contract is 9,000. The contractor's initial estimate of contract costs is 8,000. It will take three years to build the bridge.

IG17. By the end of Year 1, the Department's estimate of contract costs has increased to 8,050.

IG18. In Year 2, the customer approves a variation resulting in an increase in contract revenue of 200 and estimated additional contract costs of 150. At the end of Year 2, costs incurred include 100 for standard materials stored at the site to be used in Year 3 to complete the project.

IG19. The Department determines the stage of completion of the contract by calculating the proportion that contract costs incurred for work performed to date bear to the latest estimated total contract costs. A summary of the financial data during the construction period is as follows:

	Year 1	**Year 2**	**Year 3**
Initial amount of revenue agreed in contract	9,000	9,000	9,000
Variation	–	200	200
Total Contract Revenue	9,000	9,200	9,200
Contract costs incurred to date	2,093	6,168	8,200
Contract costs to complete	5,957	2,032	–
Total estimated contract costs	8,050	8,200	8,200
Estimated surplus	950	1,000	1,000
Stage of completion	26%	74%	100%

IG20. The stage of completion for Year 2 (74%) is determined by excluding from contract costs incurred for work performed to date the 100 for standard materials stored at the site for use in Year 3.

IG21. The amounts of revenue, expenses, and surplus recognized in the statement of financial performance in the three years are as follows:

	To Date	Recognized in prior years	Recognized in current year
Year 1			
Revenue (9,000 × .26)	2,340		2,340
Expenses (8,050 × .26)	2,093		2,093
Surplus	247		247
Year 2			
Revenue (9,200 × .74)	6,808	2,340	4,468
Expenses (8,200 × .74)	6,068	2,093	3,975
Surplus	740	247	493
Year 3			
Revenue (9,200 × 1.00)	9,200	6,808	2,392
Expenses (8,200 × 1.00)	8,200	6,068	2,132
Surplus	1,000	740	260

Contract Disclosures

Appropriation/Aid Funded Contracts and Full Cost Recovery Contracts

IG22. The Department of Works and Services was recently created as the entity to manage the construction of major buildings and roadworks for other government entities. It is funded predominantly by appropriation, but with the approval of the Minister is empowered to undertake construction projects financed by national or international aid agencies. It has its own construction capabilities and can also subcontract. With the approval of the Minister, the Department may also undertake construction work on a commercial basis for commercial public sector entities and private sector entities and on a full cost recovery basis for state hospitals and state run universities.

IG23. The Department of Works and Services has reached the end of its first year of operations. All its contract costs incurred have been paid for in cash, and all its progress billings (to aid agencies that have commissioned construction work) have been received in cash. No advances to the Department for construction work were made during the period. Contract costs incurred for contracts B and C include the cost of materials that have been purchased for the contract but which have not been used in contract performance to date. No commercial contracts have been undertaken this year. (See below for examples of commercial contracts.)

- Contract A is funded out of general appropriation revenue. (The contract includes no "contract revenue" as defined.)
- Contract B is with the Department of Education and the XX Aid Agency, which is funding 50% of the construction costs. (50% of the contract cost is to be reimbursed by parties to the contract and therefore is "contract revenue" as defined.)

- Contract C is totally funded by the National University. (The terms of the arrangement specify that all of the contract costs are to be reimbursed by the National University from the University's major construction fund. Therefore, "contract revenue" as defined equals contract costs.)

IG24. The status of the three contracts in progress at the end of Year 1 is as follows:

	Contract			
	A	**B**	**C**	**Total**
Contract Revenue recognized in accordance with paragraph 30	–	225	350	575
Contract Expenses recognized in accordance with paragraph 30	110	450	350	910
Contract Costs funded by Appropriation	110	225	–	335
Contract Costs incurred in the period	110	510	450	1,070
– recognized as expenses (para 30)	110	450	350	910
– recognized as an asset (para 35)	–	60	100	160
Contract Revenue (see above)	–	225	350	575
Progress Billings (para 52)	–	225	330	555
Unbilled Contract Revenue	–	–	20	20
Advances (para 52)	–	–	–	–

The amounts to be disclosed in accordance with the standard are as follows:

Contract revenue recognized as revenue in the period (para 50(a))	575
Contract costs incurred to date (para 51(a)) (there are no recognized surpluses/less recognized deficits)	1,070
Gross amount due from contract customers for contract work (determined in accordance with paragraph 54 and presented as an asset in accordance with paragraph 53(a))	150

Amounts to be disclosed in accordance with paragraphs 51(a) and 53(a) are as follows (*Note: contract revenue for B is 50% of contract costs*):

	A	**B**	**C**	**Total**
Contract costs incurred	110	510	450	1,070
Progress billings	0	225	330	555
Due from aid agencies and customers	–	30	120	150

IG25. The amount disclosed in accordance with paragraph 51(a) is the same as the amount for the current period because the disclosures relate to the first year of operation.

Commercial Contracts

IG26. The Division of National Construction Works has been established within the Department of Works and Services to undertake construction work on a commercial basis for commercial public sector entities and private sector entities at the direction, and with the approval, of the Minister. The Division has reached the end of its first year of operations. All its contract costs incurred have been paid for in cash, and all its progress billings and advances have been received in cash. Contract costs incurred for contracts B, C, and E include the cost of materials that have been purchased for the contract, but which have not been used in contract performance to date. For contracts B, C, and E, the customers have made advances to the contractor for work not yet performed.

IG27. The status of its five contracts in progress at the end of Year 1 is as follows:

	Contract					
	A	**B**	**C**	**D**	**E**	**Total**
Contract revenue recognized in accordance with paragraph 30	145	520	380	200	55	1,300
Contract expenses recognized in accordance with paragraph 30	110	450	350	250	55	1,215
Expected deficits recognized in accordance with paragraph 44	–	–	–	40	30	70
Recognized surpluses less recognized deficits	35	70	30	(90)	(30)	15
Contract costs incurred in the period	110	510	450	250	100	1,420
Contract costs incurred recognized as contract expenses in the period in accordance with paragraph 30	110	450	350	250	55	1,215
Contract costs that relate to future activity recognized as an asset in accordance with paragraph 35	–	60	100	–	45	205
Contract revenue (see above)	145	520	380	200	55	1,300
Progress billings (para 52)	100	520	380	180	55	1,235
Unbilled contract Revenue	45	–	–	20	–	65
Advances (para 52)	–	80	20	–	25	125

The amounts to be disclosed in accordance with the Standard are as follows:

Contract revenue recognized as revenue in the period (para 50(a))	1,300
Contract costs incurred and recognized surpluses (less recognized deficits) to date (para 51(a))	1,435
Advances received (para 51(b))	125

Gross amount due from customers for contract work – presented as an asset in accordance with paragraph 53(a)	220
Gross amount due to customers for contract work – presented as an asset in accordance with paragraph 53(b)	(20)

IG28. The amount disclosed in accordance with paragraph 51(a) is the same as the amount for the current period because the disclosures relate to the first year of operation.

COMPARISON WITH IAS 11

IPSAS 11, *Construction Contracts* is drawn primarily from IAS 11, *Construction Contracts*. The main differences between IPSAS 11 and IAS 11 are as follows:

- Commentary additional to that in IAS 11 has been included in IPSAS 11 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 11 uses different terminology, in certain instances, from IAS 11. The most significant examples are the use of the terms "revenue," and "statement of financial performance" in IPSAS 11. The equivalent terms in IAS 11 are "income," and "income statement."
- IPSAS 11 includes binding arrangements that do not take the form of a legal contract within the scope of the Standard.
- IPSAS 11 includes cost-based and noncommercial contracts within the scope of the Standard.
- IPSAS 11 makes it clear that the requirement to recognize an expected deficit on a contract immediately it becomes probable that contract costs will exceed total contract revenues applies only to contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to that contract.
- IPSAS 11 includes additional examples to illustrate the application of the Standard to noncommercial construction contracts.

IPSAS 12—Inventories

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 2 (Revised 2003), *Inventories*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 2 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 12—INVENTORIES

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 12, *Inventories* was issued in July 2001.

In December 2006 the IPSASB issued a revised IPSAS 12.

Since then, IPSAS 12 has been amended by the following IPSAS:

- IPSAS 48, *Transfer Expenses* (issued May 2023)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 43, *Leases (issued January 2022)*
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 12

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
2	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010 IPSAS 41 August 2018 IPSAS 47 May 2023
4	Deleted	*The Applicability of IPSAS* April 2016
5	Deleted	The Applicability of IPSAS April 2016
9	Amended	IPSAS 47 May 2023
10	Amended	IPSAS 46 May 2023
11	Amended	IPSAS 47 May 2023

Paragraph Affected	How Affected	Affected By
		IPSAS 48 May 2023
12	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
14A	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
15	Amended	*Improvements to IPSAS* November 2010
17	Amended	IPSAS 48 May 2023
20	Amended	IPSAS 43 January 2022
Heading above paragraph 28	Deleted	IPSAS 47 May 2023
28	Deleted	IPSAS 47 May 2023
29	Amended	IPSAS 27 December 2009
33	Amended	*Improvements to IPSAS* November 2010
39	Amended	IPSAS 47 May 2023
43	Amended	IPSAS 48 May 2023
44	Amended	IPSAS 48 May 2023
47	Amended	IPSAS 46 May 2023
48	Amended	IPSAS 47 May 2023
Heading above paragraph 50A	New	IPSAS 46 May 2023
50A	New	IPSAS 46 May 2023
50B	New	IPSAS 46 May 2023
50C	New	IPSAS 46 May 2023
50D	New	IPSAS 46 May 2023
50E	New	IPSAS 46 May 2023
50F	New	IPSAS 46 May 2023
51A	New	IPSAS 27 December 2009
51B	New	IPSAS 33 January 2015
51C	New	*Improvements to IPSAS* April 2016
51D	New	*The Applicability of IPSAS* April 2016
51E	Amended	*COVID-19: Deferral of Effective Dates* November 2020
51F	New	IPSAS 43 January 2022

Paragraph Affected	How Affected	Affected By
51G	New	IPSAS 45 May 2023
51H	New	IPSAS 46 May 2023
51I	New	IPSAS 47 May 2023
51J	New	IPSAS 48 May 2023
52	Amended	IPSAS 33 January 2015

IPSAS 12—INVENTORIES

CONTENTS

International Public Sector Accounting Standard 12, *Inventories*, is set out in paragraphs 1–53. All the paragraphs have equal authority. IPSAS 12 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories except:**

   (a) [Deleted]

   (b) **Financial instruments (see IPSAS 28, *Financial Instruments: Presentation* and IPSAS 41, *Financial Instruments*);**

   (c) **Biological assets related to agricultural activity and agricultural produce at the point of harvest (see IPSAS 27, *Agriculture*); and**

   (d) **Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.**

3. **This Standard does not apply to the measurement of inventories held by:**

   (a) **Producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in surplus or deficit in the period of the change; and**

   (b) **Commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in surplus or deficit in the period of the change.**

4. [Deleted]

5. [Deleted]

6. The inventories referred to in paragraph 2(d) are not encompassed by IAS 2, *Inventories*, and are excluded from the scope of this Standard because they involve specific public sector issues that require further consideration.

7. The inventories referred to in paragraph 3(a) are measured at net realizable value at certain stages of production. This occurs, for example, (a) when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or (b) when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded only from the measurement requirements of this Standard.

8. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a surplus from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded only from the measurement requirements of this Standard.

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Inventories are assets:

(a) **In the form of materials or supplies to be consumed in the production process;**

(b) **In the form of materials or supplies to be consumed or distributed in the rendering of services;**

(c) **Held for sale or distribution in the ordinary course of operations; or**

(d) **In the process of production for sale or distribution.**

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Non-exchange transactions are transactions that are not exchange transactions, where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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.

Net Realizable Value

10. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs of disposal.

Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge (a transfer expense) or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. Costs incurred to fulfill a binding arrangement that does not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with IPSAS 47, *Revenue*.

12. Inventories in the public sector may include:

(a) Military inventories;

(b) Consumable stores;

(c) Maintenance materials;

(d) Spare parts for plant and equipment, other than those dealt with in IPSAS 45, *Property, Plant, and Equipment*;

(e) Strategic stockpiles (for example, energy reserves);

(f) Stocks of unissued currency;

(g) Postal service supplies held for sale (for example, stamps);

(h) Work-in-progress, including:

  (i) Educational/training course materials; and

  (ii) Client services (for example, auditing services), where those services are sold at arm's length prices; and

(i) Land/property held for sale.

13. Where the government controls the rights to create and issue various assets, including postal stamps and currency, these items of inventory are recognized as inventories for the purposes of this Standard. They are not reported at face value, but measured in accordance with paragraph 15, that is, at their printing or minting cost.

14. When a government maintains strategic stockpiles of various reserves, such as energy reserves (for example, oil), for use in emergency or other situations (for example, natural disasters or other civil defense emergencies), these stockpiles are recognized as inventories for the purposes of this Standard and treated accordingly.

14A. Military inventories consist of single-use items, such as ammunition, missiles, rockets and bombs delivered by weapons or weapons systems. However, some types of missiles may be accounted for in accordance with IPSAS 45 if they satisfy the criteria to be classified in that standard.

Measurement of Inventories

15. **Inventories shall be measured at the lower of cost and net realizable value, except where paragraph 16 or paragraph 17 applies.**

16. **Where inventories are acquired through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition.**

17. **Inventories shall be measured at the lower of cost and current replacement cost where they are held for:**

(a) **Distribution at no charge (a transfer expense) or for a nominal charge; or**

(b) **Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge.**

Cost of Inventories

18. **The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.**

Costs of Purchase

19. The costs of purchase of inventories comprise (a) the purchase price, (b) import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and (c) transport, handling, and other costs directly attributable to the acquisition of finished goods, materials, and supplies. Trade discounts, rebates, and other similar items are deducted in determining the costs of purchase.

Costs of Conversion

20. The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of (a) the volume of production, such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process, and (b) the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labor.

21. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased, so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

22. For example, the allocation of costs, both fixed and variable, incurred in the development of undeveloped land held for sale into residential or commercial landholdings could include costs relating to landscaping, drainage, pipe laying for utility connection, etc.

23. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realizable value, and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other Costs

24. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

25. Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

    (a) Abnormal amounts of wasted materials, labor, or other production costs;

    (b) Storage costs, unless those costs are necessary in the production process before a further production stage;

    (c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and

    (d) Selling costs.

26. IPSAS 5, *Borrowing Costs*, identifies limited circumstances where borrowing costs are included in the cost of inventories.

27. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

28. [Deleted]

Cost of Agricultural Produce Harvested from Biological Assets

29. In accordance with IPSAS 27, inventories comprising agricultural produce that an entity has harvested from its biological assets shall be measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Techniques for the Measurement of Cost

30. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency, and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.

31. Inventories may be transferred to the entity by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is its fair value as at the date it is acquired.

Cost Formulas

32. **The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, shall be assigned by using specific identification of their individual costs.**

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

34. **When applying paragraph 33 an entity shall use the same cost formula for all inventories having similar nature and use to the entity. For inventories with different nature or use (for example, certain commodities used in one segment and the same type of commodities used in another segment), different cost formulas may be justified. A difference in geographical location of inventories (and in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.**

35. **The cost of inventories, other than those dealt with in paragraph 32, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.**

36. For example, inventories used in one segment may have a use to the entity different from the same type of inventories used in another segment. However, a difference in geographical location of inventories, by itself, is not sufficient to justify the use of different cost formulas.

37. The FIFO formula assumes that the items of inventory that were purchased first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of

similar items at the beginning of a period, and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net Realizable Value

38. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale, exchange, or distribution have increased. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried in excess of the future economic benefits or service potential expected to be realized from their sale, exchange, distribution, or use.

39. Inventories are usually written down to net realizable value on an item by item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory that have similar purposes or end uses, and cannot practicably be evaluated separately from other items in that product line. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular operation or geographical segment.

40. Estimates of net realizable value also take into consideration the purpose for which the inventory is held. For example, the net realizable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realizable value of the excess is based on general selling prices. Guidance on the treatment of provisions or contingent liabilities, such as those arising from firm sales contracts in excess of inventory quantities held, and on firm purchase contracts can be found in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

41. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold, exchanged, or distributed at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.

42. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e., the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. This occurs, for example, when an item of inventory that is carried at net realizable value because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Distributing Goods at No Charge or for a Nominal Charge

43. A public sector entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a government has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

Recognition as an Expense

44. **When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognized in accordance with IPSAS 48, *Transfer Expenses*. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.**

45. For a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

46. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant, or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

Disclosure

47. **The financial statements shall disclose:**

    (a) **The accounting policies adopted in measuring inventories, including the cost formula used;**

    (b) **The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;**

    (c) **The carrying amount of inventories carried at fair value less costs of disposal;**

    (d) **The amount of inventories recognized as an expense during the period;**

    (e) **The amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 42;**

    (f) **The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period in accordance with paragraph 42;**

    (g) **The circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 42; and**

    (h) **The carrying amount of inventories pledged as security for liabilities.**

48. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress, and finished goods.

49. The amount of inventories recognized as an expense during the period consists of (a) those costs previously included in the measurement of inventory that has now been sold, exchanged, or distributed, and (b) unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other costs, such as distribution costs.

50. Some entities adopt a format for surplus or deficit that results in amounts being disclosed other than the cost of inventories recognized as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognized as an expense for (a) raw materials and consumables, (b) labor costs, and (c) other costs, together with the amount of the net change in inventories for the period.

Current Value Measurement

50A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For inventories that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

50B. To meet the objectives in paragraph 50A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 50A, an entity shall disclose additional information necessary to meet those objectives.

50C. To meet the objectives in paragraph 50A, an entity shall disclose, at a minimum, the following information for each class of inventories (see paragraph 50D for information on determining appropriate classes of inventories) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of inventories are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of inventories are those that this Standard requires or permits in the statement of financial position in particular circumstances;

(b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value measurements estimated using unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value measurements estimated using unobservable inputs, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those inventories held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

50D. An entity shall determine the appropriate disaggregation of inventories on the basis of the following:

(a) The nature, characteristics and risks of the inventories; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of inventories for which disclosures about fair value measurements should be provided requires judgment. Inventories will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an inventory, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

50E. For each class of inventories not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 50C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, required by paragraph 50C(c). For such inventories, an entity does not need to provide the other disclosures required by this Standard.

50F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Effective Date

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

51A. **IPSAS 27 amended paragraph 29. An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 27 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.**

51B. **Paragraph 52 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS) issued* in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

51C. **Paragraph 12 was amended and paragraph 14A was added by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

51D. **Paragraphs 4 and 5 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

51E. **Paragraph 2 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

51F. **Paragraph 20 was amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

51G. **Paragraph 12(d) and 14A were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

51H. **Paragraphs 10 and 47 were amended, and paragraphs 50A–50F were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

51I. **Paragraphs 2, 9, 11, 39, and 48 were amended, and paragraph 28 was deleted by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

51J. **Paragraphs 11, 17, 43 and 44 were amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or**

after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 48 at the same time.

52. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Withdrawal of IPSAS 12 (2001)

53. This Standard supersedes IPSAS 12, *Inventories*, issued in 2001.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 12.

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 12, issued in July 2001, was based on IAS 2 (Revised 1993), *Inventories*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),2 actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 2 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 2 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 12 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 12 as a result of Part III of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC7. Government Finance Statistics (GFS) reporting guidelines use the term "military inventories" to comprise all single-use items, including ammunition. The IPSASB concluded that replacing the IPSAS term "ammunition" with the GFS term "military inventories" and including a description will clarify the types of military assets that are to be classified as inventories, while increasing consistency with GFS reporting guidelines.

Revision of IPSAS 12 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC8. 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 GBEs" from the scope section of each Standard;

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1 The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

(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 12 as a result of IPSAS 46, *Measurement*

BC9. The IPSASB developed IPSAS 46 to ensure that measurement bases are applied consistently to all transactions. This pronouncement amends IPSAS 12 by:

(a) Updating the definition of fair value to clarify its application across IPSAS and align with IFRS; and

(b) Adding fair value disclosure requirements to help users assess the measurement techniques and inputs used to measure inventory at fair value and the effect on surplus or deficit or net assets/equity for the period.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 46.

BC10. IPSAS 46 also introduced a public sector specific measurement basis applicable to assets held for their operational capacity. As part of its review of all measurement bases in its literature, the IPSASB considered whether current operational value should be added to, or replace, an existing measurement basis in this Standard.

BC11. The IPSASB agreed to retain the current measurement bases in this Standard. The IPSASB specifically noted current replacement cost, which shares some characteristics with current operational value, should be retained, and not replaced in this Standard because when IPSAS 46 was issued, the IPSASB was not aware of any issues in practice when applying current replacement cost to inventory. The IPSASB agreed any changes to a specific measurement basis in this Standard should be considered as part of a standalone project related to this IPSAS. This will allow stakeholders to clearly consider the implications of the proposal.

COMPARISON WITH IAS 2

IPSAS 12, *Inventories* is drawn primarily from IAS 2, *Inventories* (Revised 2003). The main differences between IPSAS 12 and IAS 2 are as follows:

- IPSAS 12 uses a different definition from IAS 2; the difference recognizes that in the public sector some inventories are distributed at no charge or for a nominal charge.
- IPSAS 12 clarifies that work-in-progress of services that are to be distributed for no or nominal consideration directly in return from the recipients are excluded from the scope of the Standard.
- A definition of current replacement cost, which is additional to the definitions in IAS 2, has been included in IPSAS 12.
- IPSAS 12 requires that where inventories are acquired through a non-exchange transaction, their cost is their fair value as at the date of acquisition.
- IPSAS 12 requires that where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost.
- IPSAS 12 uses different terminology, in certain instances, from IAS 2. The most significant example is the use of the terms “statement of financial performance” in IPSAS 12. The equivalent term in IAS 2 is “income statement.”
- IPSAS 12 does not use the term “income,” which in IAS 2 has a broader meaning than the term “revenue.”

IPSAS 13—LEASES

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 17 (Revised 2003), Leases, published by the International Accounting Standards Board (IASB®). Extracts from IAS 17 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

The approved text of the IFRS Accounting Standards is that published by the IASB in the English language, and copies may be obtained directly from IFRS Foundation, Customer Service, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD, United Kingdom.

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IPSAS 13—LEASES

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 13, *Leases* was issued in December 2001.

In December 2006 the IPSASB issued a revised IPSAS 13.

Since then, IPSAS 13 has been amended by the following IPSAS:

- *Improvements to IPSAS 2019* (issued January 2020)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- IPSAS 32, *Service Concession Arrangements: Grantor* (issued October 2011)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 13

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
2	Amended	IPSAS 27 December 2009 *Improvements to IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
19	Deleted	*Improvements to IPSAS* November 2010
20	Deleted	*Improvements to IPSAS* November 2010
20A	New	*Improvements to IPSAS* November 2010
21	Amended	*Improvements to IPSAS* April 2016
25	Amended	IPSAS 32 October 2011
26	Amended	IPSAS 32 October 2011
27	Amended	IPSAS 32 October 2011
36	Amended	IPSAS 31 January 2010
40	Amended	*Improvements to IPSAS* November 2010

Paragraph Affected	How Affected	Affected By
41	Amended	IPSAS 31 January 2010
44	Amended	*Improvements to IPSAS* November 2010
66	Amended	IPSAS 31 January 2010
67	Amended	*Improvements to IPSAS* January 2020
76	Amended	*Improvements to IPSAS* January 2020
79	Deleted	IPSAS 33 January 2015
80	Deleted	IPSAS 33 January 2015
84	Deleted	*Improvements to IPSAS* January 2020
84A	New	*Improvements to IPSAS* November 2010
85A	New	*Improvements to IPSAS* November 2010
85B	New	IPSAS 32 October 2011
85C	New	IPSAS 33 January 2015
85D	New	*The Applicability of IPSAS* April 2016
85E	New	*Improvements to IPSAS* January 2020
85F	New	*Improvements to IPSAS* January 2020
86	Amended	IPSAS 33 January 2015

IPSAS 13—LEASES

CONTENTS

International Public Sector Accounting Standard 13, *Leases*, is set out in paragraphs 1–87. All the paragraphs have equal authority. IPSAS 13 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all leases other than:**

   (a) **Leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources; and**

   (b) **Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents, and copyrights.**

   However, this Standard shall not be applied as the basis of measurement for:

   (a) **Property held by lessees that is accounted for as investment property (see IPSAS 16, *Investment Property*);**

   (b) **Investment property provided by lessors under operating leases (see IPSAS 16);**

   (c) **Biological assets within the scope of IPSAS 27, *Agriculture* held by lessees under finance leases; or**

   (d) **Biological assets within the scope of IPSAS 27 provided by lessors under operating leases.**

3. [Deleted]

4. [Deleted]

5. This Standard applies to agreements that transfer the right to use assets, even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other. Public sector entities may enter into complex arrangements for the delivery of services, which may or may not include leases of assets. These arrangements are discussed in paragraphs 25–27.

6. This Standard does not apply to (a) lease agreements to explore for or use natural resources such as oil, gas, timber, metals, and other mineral rights, and (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents, and copyrights. This is because these types of agreements have the potential to raise complex accounting issues that need to be addressed separately.

7. This Standard does not apply to investment property. Investment properties are measured by lessors and lessees in accordance with the provisions of IPSAS 16.

Definitions

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

   The <u>commencement of the lease term</u> is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue, or expenses resulting from the lease, as appropriate).

   <u>Contingent rent</u> is that portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time (e.g., percentage of future sales, amount of future use, future price indices, future market rates of interest).

<u>Economic life</u> is either:

(a) **The period over which an asset is expected to yield economic benefits or service potential to one or more users; or**

(b) **The number of production or similar units expected to be obtained from the asset by one or more users.**

A <u>finance lease</u> is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

<u>Gross investment in the lease</u> is the aggregate of:

(a) **The minimum lease payments receivable by the lessor under a finance lease; and**

(b) **Any unguaranteed residual value accruing to the lessor.**

<u>Guaranteed residual value</u> is:

(a) **For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and**

(b) **For a lessor, that part of the residual value that is guaranteed by the lessee, or by a third party unrelated to the lessor, that is financially capable of discharging the obligations under the guarantee.**

The <u>inception of the lease</u> is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

(a) **A lease is classified as either an operating or a finance lease; and**

(b) **In the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.**

<u>Initial direct costs</u> are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.

The <u>interest rate implicit in the lease</u> is the discount rate that, at the inception of the lease, causes the aggregate present value of:

(a) **The minimum lease payments; and**

(b) **The unguaranteed residual value**

to be equal to the sum of (i) the fair value of the leased asset, and (ii) any initial direct costs of the lessor.

A <u>lease</u> is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

The <u>lease term</u> is the non-cancelable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

The <u>lessee's incremental borrowing rate of interest</u> is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

Minimum lease payments are the payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:

(a) **For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or**

(b) **For a lessor, any residual value guaranteed to the lessor by:**

 (i) **The lessee;**

 (ii) **A party related to the lessee; or**

 (iii) **An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.**

However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

A non-cancelable lease is a lease that is cancelable only:

(a) **Upon the occurrence of some remote contingency;**

(b) **With the permission of the lessor;**

(c) **If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or**

(d) **Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.**

An operating lease is a lease other than a finance lease.

Unearned finance revenue is the difference between:

(a) **The gross investment in the lease; and**

(b) **The net investment in the lease.**

Unguaranteed residual value is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Useful life is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.

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.

Changes in Lease Payments Between the Inception of the Lease and the Commencement of the Lease Term

9. A lease agreement or commitment may include a provision to adjust the lease payments (a) for changes in the construction or acquisition cost of the leased property, or (b) for changes in some other measure of cost or value, such as general price levels, or in the lessor's costs of financing the lease, during the period between

the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Standard.

Hire Purchase Contracts

10. The definition of a lease includes contracts for the hire of an asset that contain a provision giving the hirer an option to acquire title to the asset upon the fulfillment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

Incremental Borrowing Rate of Interest

11. Where an entity has borrowings that are guaranteed by the government, the determination of the lessee's incremental borrowing rate of interest reflects the existence of any government guarantee and any related fees. This will normally lead to the use of a lower incremental borrowing rate of interest.

Classification of Leases

12. The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity, technological obsolescence, or changes in value because of changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset's economic life, and of gain from appreciation in value or realization of a residual value.

13. **A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.**

14. Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.

15. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

    (a) The lease transfers ownership of the asset to the lessee by the end of the lease term;

    (b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

    (c) The lease term is for the major part of the economic life of the asset, even if title is not transferred;

    (d) At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;

    (e) The leased assets are of such a specialized nature that only the lessee can use them without major modifications; and

    (f) The leased assets cannot easily be replaced by another asset.

16. Other indicators that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

(c) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

17. The examples and indicators in paragraphs 15 and 16 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case (a) if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or (b) if there are contingent rents as a result of which the lessee does not have substantially all such risks and rewards.

18. Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs 12–17 if the changed terms had been in effect at the inception of the lease, the revised agreement is regarded as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or the residual value of the leased property) or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

19. [Deleted]

20. [Deleted]

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

21. Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably[1] between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

22. For a lease of land and buildings in which the amount that would initially be recognized for the land element, in accordance with paragraph 28, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs 12–18. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

23. Separate measurement of the land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with IPSAS 16, and the fair value model is adopted. Detailed calculations are required for this assessment only if the classification of one or both elements is otherwise uncertain.

[1] Information that is reliable is free from material error and bias, and can be depended only users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transactional approach to the explanation of reliability.

24. In accordance with IPSAS 16, it is possible for a lessee to classify a property interest held under an operating lease as an investment property. If it does, the property interest is accounted for as if it were a finance lease and, in addition, the fair value model is used for the asset recognized. The lessee shall continue to account for the lease as a finance lease, even if a subsequent event changes the nature of the lessee's property interest so that it is no longer classified as investment property. This will be the case if, for example, the lessee:

(a) Occupies the property, which is then transferred to owner-occupied property at a deemed cost equal to its fair value at the date of change in use; or

(b) Grants a sublease that transfers substantially all of the risks and rewards incidental to ownership of the interest to an unrelated third party. Such a sublease is accounted for by the lessee as a finance lease to the third party, although it may be accounted for as an operating lease by the third party.

Leases and Other Contracts

25. A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate, and/or transfer assets. Public sector entities often enter into such agreements, particularly in relation to long-lived physical assets and infrastructure assets. Other agreements may involve a public sector entity leasing infrastructure from the private sector. The entity determines whether the arrangement is a service concession arrangement, as defined in IPSAS 32, *Service Concession Arrangements: Grantor*.

26. Where an arrangement does not meet the conditions for recognition of a service concession asset in accordance with IPSAS 32 and the arrangement contains an identifiable operating lease or finance lease as defined in this Standard, the provisions of this Standard are applied in accounting for the lease component of the arrangement.

27. Public sector entities may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether a service concession arrangement as defined in IPSAS 32 or a lease, as defined by this Standard, has arisen. In these cases, professional judgment is exercised, and if a lease has arisen this standard is applied; if a lease has not arisen, entities account for those agreements by applying the provisions of other relevant IPSAS, or in the absence thereof, other relevant international and/or national accounting standards.

Leases in the Financial Statements of Lessees

Finance Leases

28. **At the commencement of the lease term, lessees shall recognize assets acquired under finance leases as assets, and the associated lease obligations as liabilities in their statements of financial position. The assets and liabilities shall be recognized at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.**

29. Transactions and other events are accounted for and presented in accordance with their substance and financial reality, and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.

30. If such lease transactions are not reflected in the lessee's financial statements, the assets and liabilities of an entity are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recognized in the lessee's financial statements both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognized in the financial statements at the same amounts, except for any initial direct costs of the lessee that are added to the amount recognized as an asset.

31. It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets.

32. If, for the presentation of liabilities on the face of the statement of financial position, a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.

33. Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognized as an asset.

34. **Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the period in which they are incurred.**

35. In practice, in allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation.

36. **A finance lease gives rise to a depreciation expense for depreciable assets as well as a finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognized shall be calculated in accordance with IPSAS 17, *Property, Plant, and Equipment*, and IPSAS 31, *Intangible Assets*, as appropriate. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term or its useful life.**

37. The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term or its useful life.

38. The sum of the depreciation expense for the asset and the finance expense for the period is rarely the same as the lease payments payable for the period, and it is therefore inappropriate simply to recognize the lease payments payable as an expense. Accordingly, the asset and the related liability are unlikely to be equal in amount after the commencement of the lease term.

39. To determine whether a leased asset has become impaired, an entity applies relevant impairment tests in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.

40. **Lessees shall disclose the following for finance leases:**

    (a) **For each class of assets, the net carrying amount at the reporting date;**

    (b) **A reconciliation between the total of future minimum lease payments at the reporting date, and their present value;**

(c) **In addition, an entity shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods:**

(i) **Not later than one year;**

(ii) **Later than one year and not later than five years; and**

(iii) **Later than five years;**

(d) **Contingent rents recognized as an expense in the period;**

(e) **The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date; and**

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

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

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

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

41. In addition, the requirements for disclosure in accordance with IPSAS 16, IPSAS 17, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, IPSAS 26, *Impairment of Cash-Generating Assets*, and IPSAS 31, that have been adopted by the entity are applied to the amounts of leased assets under finance leases that are accounted for by the lessee as acquisitions of assets.

Operating Leases

42. **Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the user's benefit.**

43. For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognized as an expense on a straight-line basis, unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

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

(a) **The total of future minimum lease payments under non-cancelable operating leases for each of the following periods:**

(i) **Not later than one year;**

(ii) **Later than one year and not later than five years; and**

(iii) **Later than five years;**

(b) **The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date;**

(c) **Lease and sublease payments recognized as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and**

(d) **A general description of the lessee's significant leasing arrange-ments including, but not limited to, the following:**

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

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

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

Leases in the Financial Statements of Lessors

Finance Leases

45. This Standard describes the treatment of finance revenue earned under finance leases. The term "manufacturer or trader lessor" is used in this Standard to refer to all public sector entities that manufacture or trade assets and also act as lessors of those assets, regardless of the scale of their leasing, trading, and manufacturing activities. With respect to an entity that is a manufacturer or trader lessor, the Standard also describes the treatment of gains or losses arising from the transfer of assets.

46. Public sector entities may enter into finance leases as a lessor under a variety of circumstances. Some public sector entities may trade assets on a regular basis. For example, governments may create special purpose entities that are responsible for the central procurement of assets and supplies for all other entities. Centralization of the purchasing function may provide greater opportunity to obtain trade discounts or other favorable conditions. In some jurisdictions, a central purchasing entity may purchase items on behalf of other entities, with all transactions being conducted in the name of the other entities. In other jurisdictions, a central purchasing entity may purchase items in its own name, and its functions may include:

(a) Procuring assets and supplies;

(b) Transferring assets by way of sale or finance lease; and/or

(c) Managing a portfolio of assets, such as a motor vehicle fleet, for use by other entities, and making those assets available for short or long-term lease, or purchase.

47. Other public sector entities may enter into lease transactions on a more limited scale and at less frequent intervals. In particular, in some jurisdictions public sector entities that have traditionally owned and operated infrastructure assets such as roads, dams, and water treatment plants are no longer automatically assuming complete ownership and operational responsibility for these assets. Public sector entities may transfer existing infrastructure assets to private sector entities by way of sale or by way of finance lease. In addition, public sector entities may construct new long-lived physical and infrastructure assets in partnership with private sector entities, with the intention that the private sector entity will assume responsibility for the assets by way of outright purchase or by way of finance lease once they are completed. In some cases, the arrangement provides for a period of control by the private sector before reversion of title and control of the asset to the public sector – for example, a local government may build a hospital and lease the facility to a private sector company for a period of twenty years, after which time the facility reverts to public control.

48. **Lessors shall recognize lease payments receivable under a finance lease as assets in their statements of financial position. They shall present such assets as a receivable at an amount equal to the net investment in the lease.**

49. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance revenue to reimburse and reward the lessor for its investment and services.

Initial Recognition

50. Initial direct costs are often incurred by lessors, and include amounts such as commissions, legal fees, and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude

general overheads, such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or trader lessors, initial direct costs are included in the initial measurement of the finance lease receivable, and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease, and are recognized as an expense when the gain or loss on sale is recognized, which for a finance lease is normally at the commencement of the lease term.

51. **The recognition of finance revenue shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.**

52. A lessor aims to allocate finance revenue over the lease term on a systematic and rational basis. This revenue allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the accounting period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

53. Estimated unguaranteed residual values used in computing the lessor's gross investment in a lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the revenue allocation over the lease term is revised, and any reduction in respect of amounts already accrued is recognized immediately.

54. **Manufacturer or trader lessors shall recognize gains or losses on sale of assets in the period, in accordance with the policy followed by the entity for outright sales.**

55. **If artificially low rates of interest are quoted, any gains or losses on sale of assets shall be restricted to what would apply if a market rate of interest were charged. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease shall be recognized as an expense when the gain or loss is recognized.**

56. Public sector entities that manufacture or trade assets may offer to potential purchasers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or trader lessor gives rise to two types of revenue:

   (a) The gain or loss equivalent to the gain or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and

   (b) The finance revenue over the lease term.

57. The sales revenue recognized at the commencement of the lease term by a manufacturer or trader lessor is the fair value of the asset or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a commercial rate of interest. The cost of sale of an asset recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased property, less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the gain or loss on sale that is recognized in accordance with the entity's policy for outright sales.

58. Manufacturer or trader lessors may sometimes offer customers lower rates of interest than their normal lending rates. The use of such a rate would result in an excessive portion of the total revenue from the transaction being recognized at the time of sale. If artificially low rates of interest are quoted, revenue recognized as gain or loss on sale is restricted to what would apply if the entity's normal lending rate for that type of transaction were charged.

59. Initial direct costs are recognized as an expense at the commencement of the lease term because they are mainly related to earning the manufacturer's or trader's gain or loss on sale.

60. **Lessors shall disclose the following for finance leases:**

(a) **A reconciliation between the total gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:**

(i) **Not later than one year;**

(ii) **Later than one year and not later than five years; and**

(iii) **Later than five years;**

(b) **Unearned finance revenue;**

(c) **The unguaranteed residual values accruing to the benefit of the lessor;**

(d) **The accumulated allowance for uncollectible minimum lease payments receivable;**

(e) **Contingent rents recognized in the statement of financial performance; and**

(f) **A general description of the lessor's material leasing arrangements.**

61. As an indicator of growth in leasing activities, it is often useful to also disclose the gross investment less unearned revenue in new business added during the accounting period, after deducting the relevant amounts for canceled leases.

Operating Leases

62. **Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of the asset.**

63. **Lease revenue from operating leases shall be recognized as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished.**

64. Costs, including depreciation, incurred in earning the lease revenue are recognized as an expense. Lease revenue (excluding receipts for services provided, such as insurance and maintenance) is recognized as revenue on a straight-line basis over the lease term, even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

65. **Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset, and recognized as an expense over the lease term on the same basis as the lease revenue.**

66. **The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with IPSAS 17 or IPSAS 31, as appropriate.**

67. To determine whether a leased asset has become impaired, an entity applies relevant impairment tests in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, where appropriate.

68. A manufacturer or trader lessor does not recognize any gain on sale on entering into an operating lease because it is not the equivalent of a sale.

69. **Lessors shall disclose the following for operating leases:**

(a) **The future minimum lease payments under non-cancelable operating leases in the aggregate and for each of the following periods:**

(i) **Not later than one year;**

(ii) **Later than one year and not later than five years; and**

(iii) **Later than five years;**

(b) **Total contingent rents recognized in the statement of financial performance in the period; and**

(c) **A general description of the lessor's leasing arrangements.**

Sale and Leaseback Transactions

70. A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent, because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

71. **If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognized as revenue by a seller-lessee. Instead, it shall be deferred and amortized over the lease term.**

72. If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason, it is not appropriate to regard an excess of sales proceeds over the carrying amount as revenue. Such excess is deferred and amortized over the lease term.

73. **If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any gain or loss shall be recognized immediately. If the sale price is below fair value, any gain or loss shall be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it shall be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortized over the period for which the asset is expected to be used.**

74. If the leaseback is an operating lease, and the lease payments and the sale price are at fair value, there has in effect been a normal sale transaction and any gain or loss is recognized immediately.

75. **For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognized immediately.**

76. For finance leases, no such adjustment is necessary unless (a) there has been an impairment in value, and (b) that impairment is required to be recognized in accordance with IPSAS 21 or IPSAS 26, where appropriate.

77. Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of the material leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

78. Sale and leaseback transactions may be required to be separately disclosed in accordance with IPSAS 1.

Transitional Provisions

79. [Deleted]

80. [Deleted]

81. **Subject to paragraph 83, retrospective application of this Standard by entities that have already adopted the accrual basis of accounting and that intend to comply with IPSAS as they are issued is encouraged but not required. If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor, and shall be accounted for thereafter in accordance with the provisions of this Standard.**

82. Entities that have already adopted the accrual basis of accounting, and that intend to comply with IPSAS as they are issued, may have pre-existing finance leases that have been recognized as assets and liabilities in the statement of financial position. Retrospective application of this Standard to existing finance leases is encouraged. Retrospective application could lead to the restatement of such assets and liabilities. Such assets and liabilities are required to be restated only if the Standard is applied retrospectively.

83. **An entity that has previously applied IPSAS 13 (2001) shall apply the amendments made by this Standard retrospectively for all leases that it has recognized in accordance with that Standard or, if IPSAS 13 (2001) was not applied retrospectively, for all leases entered into since it first applied that Standard and recognized in accordance with that Standard.**

84. [Deleted]

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

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

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

Effective Date

85. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

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

85B. **Paragraphs 25, 26 and 27 were amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in October 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 6 and 42A of IPSAS 5, the amendments to paragraphs 5, 7 and 107C of IPSAS 17, the amendments to paragraphs 2 and 125A of IPSAS 29 and the amendments to paragraphs 6 and 132A of IPSAS 31.**

85C. **Paragraphs 79, 80 and 86 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

85D. **Paragraphs 3 and 4 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

85E. **Paragraphs 67 and 76 were amended by *Improvements to IPSAS*, 2019, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

85F. **Paragraph 84 was deleted by *Improvements to IPSAS*, 2019, issued in January 2020. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

86. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Withdrawal of IPSAS 13 (2001)

87. This Standard supersedes IPSAS 13, *Leases*, issued in 2001.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 13.

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

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IAS)[2] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 13, issued in December 2001, was based on IAS 17 (Revised 1997), *Leases*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee.[2] The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains. (PSC),[3] actioned an IPSAS improvement project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 17 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 17 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 12 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

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2 The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

3 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 13 as a result of the IASB's *Improvements to IFRS* issued in 2009

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

Revision of IPSAS 13 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC8. 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 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 13 as a result of *Improvements to IPSAS*, 2019

BC9. Stakeholders noted that the impairment requirements should reference relevant IPSAS rather than other international and/or national accounting standards. The IPSASB agreed to amend paragraphs 67 and 76 to include references to IPSAS 21, *Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets in Improvements to IPSAS, 2019*.

BC10. Paragraph 84 includes transitional provisions for entities to recognize leases over a period of five years. These transitional provisions have been deleted as a result of the issuance of IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*.

Implementation Guidance

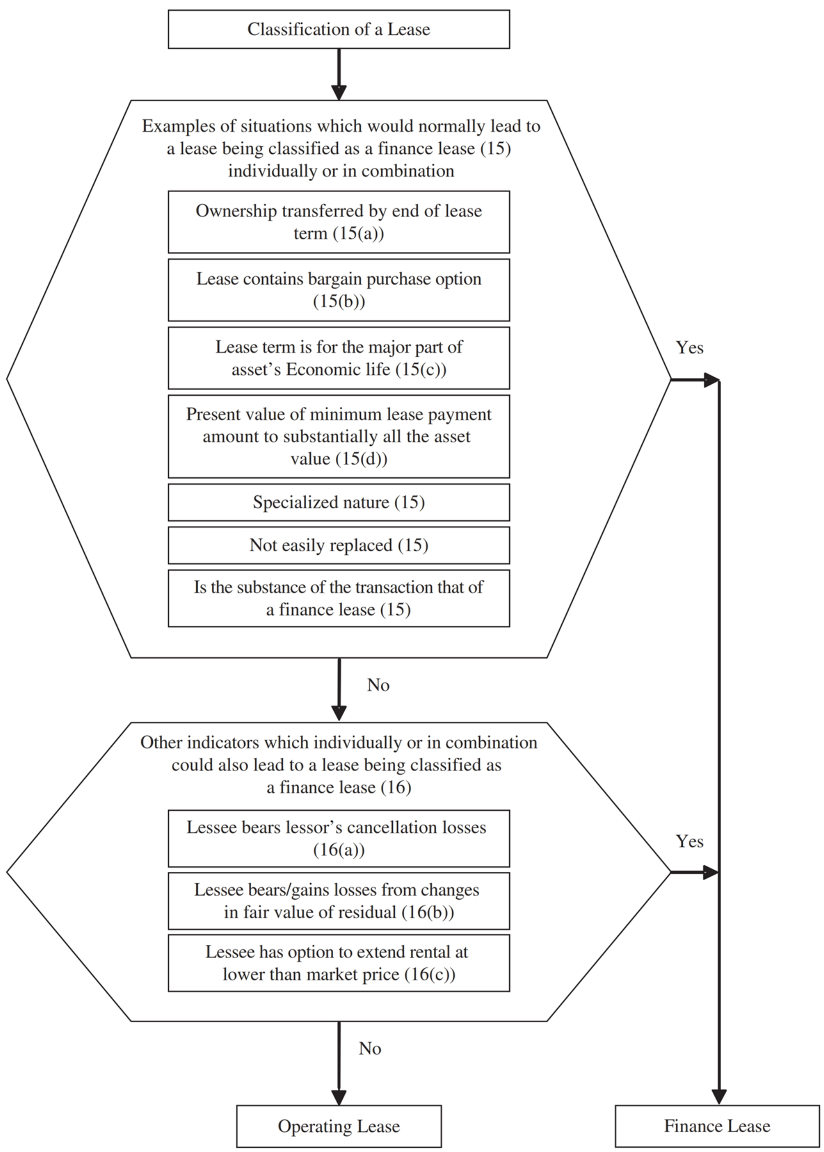
This guidance accompanies, but is not part of, IPSAS 13.

Classification of a Lease

IG1. The objective of the chart on the next page is to assist in classifying a lease as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

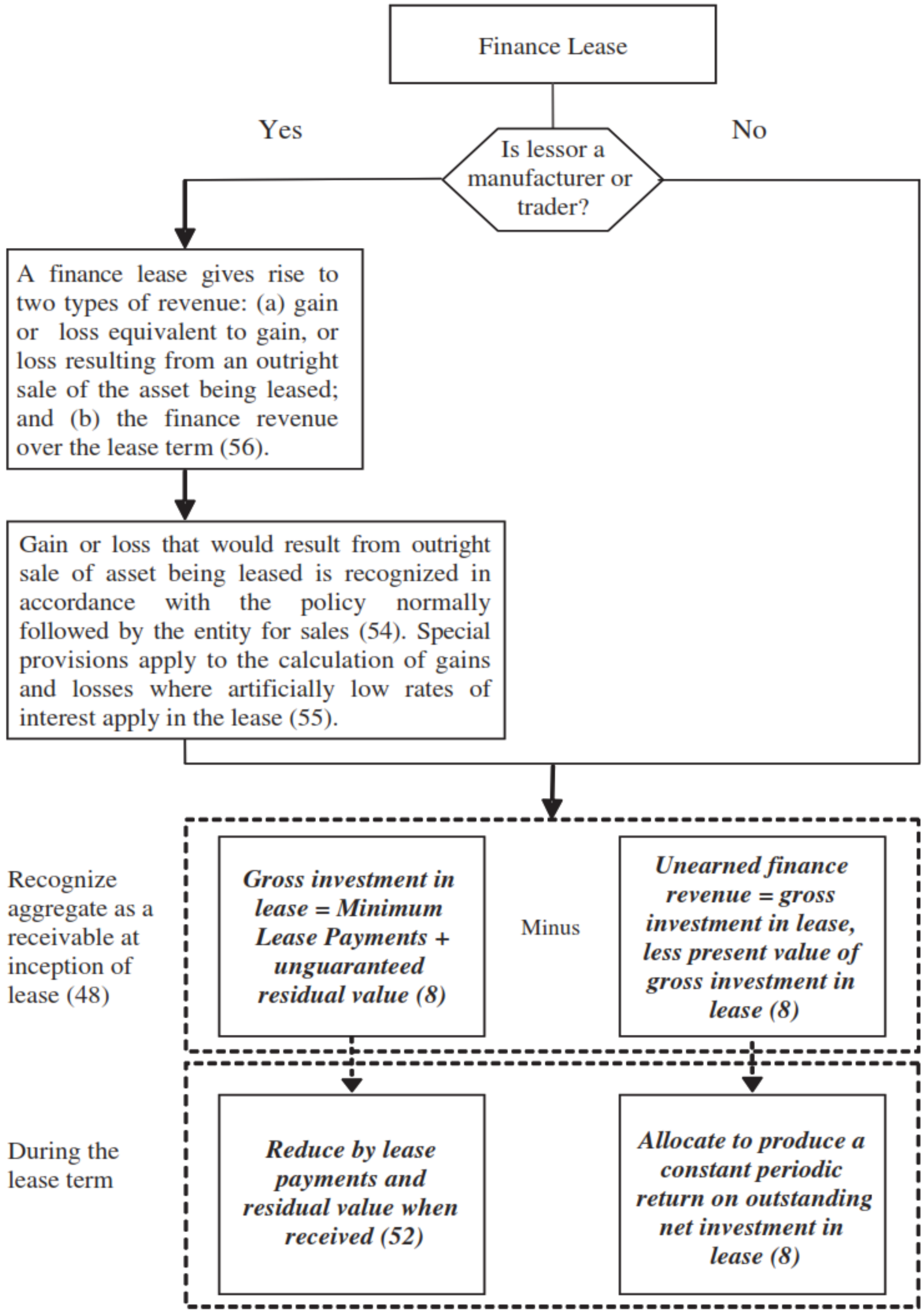
IG2. The examples contained in this chart do not necessarily reflect all possible situations in which a lease may be classified as a finance lease, nor should a lease necessarily be classified as a finance lease by virtue of the route followed in this chart. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract (paragraph 15).

IG3. In the flowchart, the numbers in parentheses refer to paragraph numbers in this Standard.



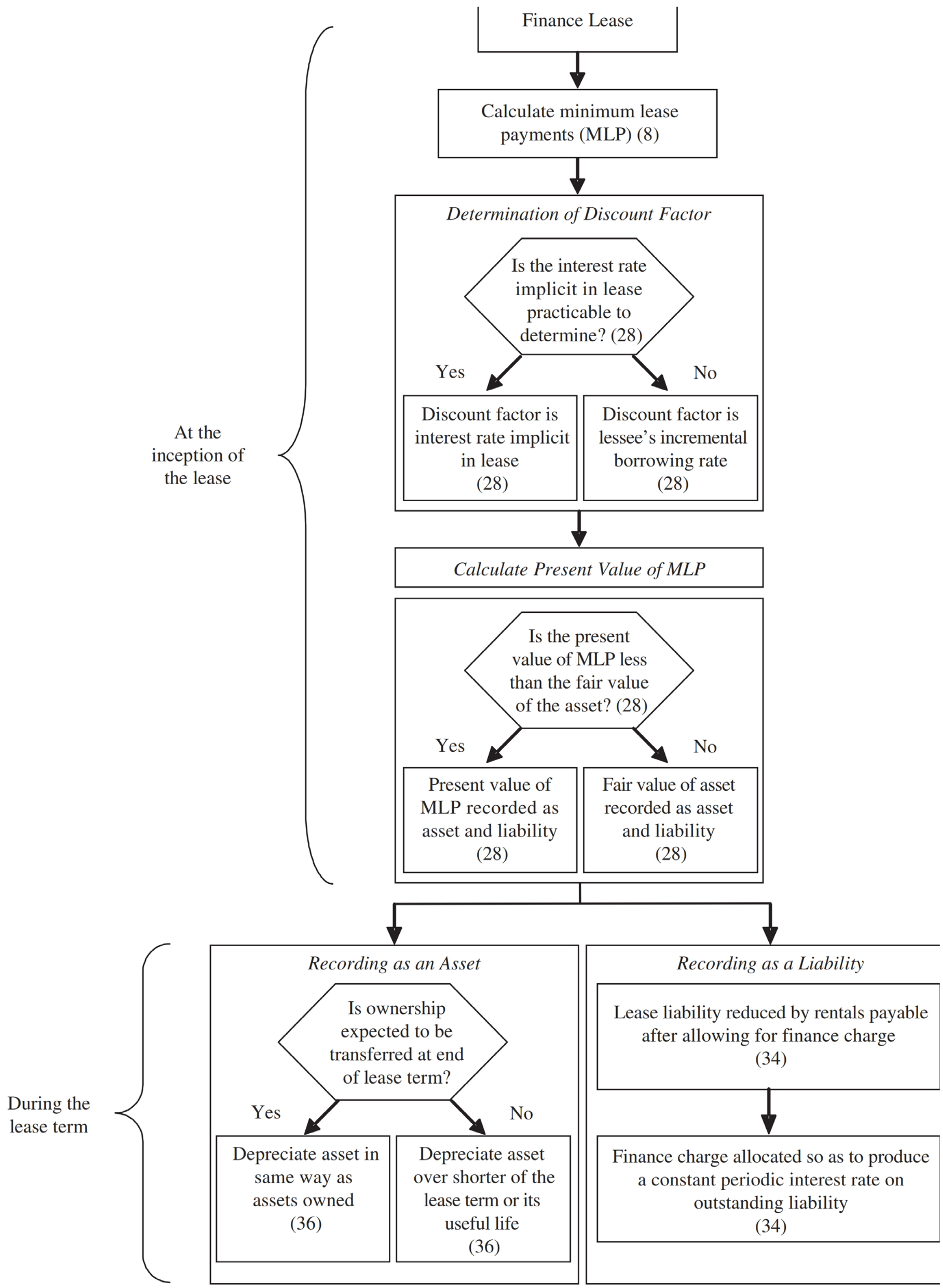
Accounting for a Finance Lease by a Lessor

IG4. In the flowchart, the numbers in parentheses refer to paragraph numbers in the Standard.



Accounting for a Finance Lease by a Lessee

IG5. In the flowchart, the numbers in parentheses refer to paragraph numbers in the Standard.



Sale and Leaseback Transactions that Result in Operating Leases

IG6. A sale and leaseback transaction that results in an operating lease may give rise to a gain or a loss, the determination and treatment of which depends upon the leased asset's carrying amount, fair value, and selling price. The table on the following page shows the requirements of this Standard in various circumstances.

Sale price established at fair value (paragraph 65)	**Carrying amount equal to fair value**	**Carrying amount less than fair value**	**Carrying amount above fair value**
Gain	no gain	recognize gain immediately	no gain
Loss	no loss	no loss	recognize loss immediately

Sale price below fair value (paragraph 65)	**Carrying amount equal to fair value**	**Carrying amount less than fair value**	**Carrying amount above fair value**
Gain	no gain	recognize gain immediately	no gain (note 1)
Loss <u>not</u> compensated by future lease payments at below market price	recognize loss immediately	recognize loss immediately	(note 1)
Loss compensated by future lease payments at below market price	defer and amortize loss	defer and amortize loss	(note 1)

Sale price above fair value (paragraph 65)	**Carrying amount equal to fair value**	**Carrying amount less than fair value**	**Carrying amount above fair value**
Gain	defer and amortize gain	defer and amortize gain (note 2)	defer and amortize gain (note 3)
Loss	no loss	no loss	(note 1)

Note 1 These parts of the table represent circumstances that would have been dealt with under paragraph 75 of this Standard. Paragraph 75 requires the carrying amount of an asset to be written down to fair value where it is subject to a sale and leaseback.

Note 2 If the sale price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used (paragraph 73).

Note 3 The gain would be the difference between fair value and sale price, as the carrying amount would have been written down to fair value in accordance with paragraph 75.

Calculating the Interest Rate Implicit in a Finance Lease

IG7. The Standard (paragraph 28) requires the lessees of assets acquired under finance leases to calculate the interest rate implicit in a lease, where practical. Paragraph 34 requires the lessees to apportion lease payments between the finance charge and the reduction of the outstanding liability, using the interest rate implicit in the lease. Many lease agreements explicitly identify the interest rate implicit in the lease, but some do not. If a lease agreement does not identify the interest rate implicit in the lease the lessee needs to calculate the rate, using the present value formula. Financial calculators and spreadsheets will automatically calculate the interest rate implicit in a lease. Where these are not available, entities can use the present value formula to manually calculate the rate. This guidance illustrates the following two common methods for calculating the interest rate: trial and error, and interpolation. Both methods use the present value formula to derive the interest rate.

IG8. Derivations of present value formulas are widely available in accounting and finance textbooks. The present value (PV) of minimum lease payments (MLP) is calculated by means of the following formula:

$$\mathrm{PV(MLP)} = \frac{S}{(1+r)^n} + \frac{A}{r}\left[1 - \frac{1}{(1+r)^n}\right]$$

Where:

"S" is the guaranteed residual value

"A" is the regular periodical payment

"r" is the periodic interest rate implicit in the lease expressed as a decimal

"n" is the number of periods in the term of the lease

Example

IG8. Department X enters into an agreement to acquire a motor vehicle on a finance lease. The fair value of the motor vehicle at the inception of the lease is 25,000 currency units; the annual lease payments are 5,429 currency units payable in arrears; the lease term is four years; and the guaranteed residual value is 10,000 currency units. The lease agreement does not provide for any services additional to the supply of the motor vehicle. Department X is responsible for all the running costs of the vehicle, including insurance, fuel, and maintenance. The lease agreement does not specify the interest rate implicit in the lease. The Department's incremental borrowing rate is 7% per annum. Several financial institutions are advertising loans secured by motor vehicles at rates varying between 7.5% and 10%.

Trial and Error Method

IG9. The calculation is an iterative process – that is, the lessee must make a "best guess" of the interest rate and calculate the present value of the minimum lease payments and compare the result to the fair value of the leased asset at the inception of the lease. If the result is less than the fair value, the interest rate selected was too high; if the result is greater than the fair value, the interest rate selected was too low. The interest rate implicit in a lease is the rate used when the present value of the minimum lease payments is equal to the fair value of the leased asset at the inception of the lease.

IG10. Department X would begin calculations using a best estimate – for example its incremental borrowing rate of 7% per annum, which is too low. It would then use the maximum feasible rate – for example the 10% per annum rate offered for loans secured by a motor vehicle, which would prove too high. After several calculations, it would arrive at the correct rate of 8.5% per annum.

IG11. To calculate the interest rate, the Department uses the PV(MLP) formula above, where:

S = 10,000 n = 4 r = Annual interest rate expressed as a decimal

A = 5,429 Target PV(MLP) = 25,000

IG12. At Department X's incremental borrowing rate of 7% (0.07) per annum (figures are rounded):

$$\text{PV(MLP)} = \frac{10{,}000}{(1+0.07)^4} + \frac{5{,}429}{0.07} 1 - \left[\frac{1}{(1+0.07)^4}\right]$$

= 7,629 + 18,390

= 26,019

IG13. The PV(MLP) using the incremental borrowing rate is greater than the fair value of the leased asset, therefore a higher rate is implicit in the lease. The Department must make calculations at other rates to determine the actual rate (figures are rounded):

PV(MLP) at 7.5%	= 25,673	Interest rate too low
PV(MLP) at 10%	= 24,040	Interest rate too high
PV(MLP) at 9%	= 24,674	Interest rate too high
PV(MLP) at 8%	= 25,333	Interest rate too low
PV(MLP) at 8.5%	= 25,000	Correct interest rate

IG14. The Department will now use the interest rate of 8.5% to apportion the lease payments between the finance charge and the reduction of the lease liability, as shown in the table below.

Interpolation Method

IG15. Calculating the interest rate implicit in a lease requires lessees to initially calculate the present value for an interest rate that is too high, and one that is too low. The differences (in absolute terms) between the results obtained and the actual net present value are used to interpolate the correct interest rate. Using the data provided above, and the results for 7% and 10%, the actual rate can be interpolated as follows (figures are rounded):

PV at 7% = 26,019, difference = 1,019 (i.e., 26,019 – 25,000)

PV at 10% = 24,040, difference = 960 (i.e., 24,040 – 25,000)

$$\text{r} = 7\% + (10\% - 7\%)\frac{1{,}019}{(1{,}019 + 960)}$$

= 7% + (3% × 0.5)

= 7% + 1.5%

= 8.5%

IG16. Department X will now use the interest rate of 8.5% to record the lease in its books and apportion the lease payments between the finance charge and the reduction of the lease liability, as shown in the table below.

Apportionment of Lease Payment (figures are rounded)

	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Opening PV of Lease Liability	25,000	25,000	21,696	18,110	14,221
Interest Expense	–	2,125	1,844	1,539	1,209
Reduction of Liability	–	3,304	3,585	3,890	14,221*

Closing Lease Liability	25,000	21,696	18,110	14,221	–

* Includes payment of guaranteed residual value.

COMPARISON WITH IAS 17

IPSAS 13, *Leases* is drawn primarily from IAS 17, *Leases* and includes amendments made to IAS 17 as part of the *Improvements to IFRS* issued in April 2009. The main differences between IPSAS 13 and IAS 17 are as follows:

- IPSAS 13 uses different terminology, in certain instances, from IAS 17. The most significant example is the use of the term "statement of financial performance" in IPSAS 13. The equivalent term in IAS 17 is "income statement."
- IPSAS 13 does not use the term "income," which in IAS 17 has a broader meaning than the term "revenue."
- IAS 17 includes a definition of "fair value" in its set of definitions of technical terms. IPSAS 13 does not include this definition, as it is included in the *Glossary of Defined Terms*, published separately (paragraph 7).
- IPSAS 13 has additional implementation guidance that illustrates the classification of a lease, the treatment of a finance lease by a lessee, the treatment of a finance lease by a lessor, and the calculation of the interest rate implicit in a finance lease.

IPSAS 14—EVENTS AFTER THE REPORTING DATE

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 10 (Revised 2003), *Events After the Balance Sheet Date*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 10 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

The approved text of the IFRS Accounting Standards is that published by the IASB in the English language, and copies may be obtained directly from IFRS Foundation, Customer Service, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD, United Kingdom.

E-mail: customerservices@ifrs.org

Internet: www.ifrs.org

IPSAS 14—EVENTS AFTER THE REPORTING DATE

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 14, *Events After the Reporting Date* was issued in December 2001.

In December 2006 the IPSASB issued a revised IPSAS 14.

Since then, IPSAS 14 has been amended by the following IPSAS:

- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued January 2010)

Table of Amended Paragraphs in IPSAS 14

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
11	Amended	IPSAS 41 August 2018
15	Amended	*The Applicability of IPSAS* April 2016
16	Amended	*Improvements to IPSAS* January 2010 IPSAS 44 May 2022
21	Amended	*The Applicability of IPSAS* April 2016
31	Amended	*Improvements to IPSAS* April 2016 IPSAS 40 January 2017 IPSAS 44 May 2022
32A	New	*Improvements to IPSAS* January 2010
32B	New	IPSAS 33 January 2015
32C	New	*Improvements to IPSAS* April 2016

Paragraph Affected	**How Affected**	**Affected By**
32D	New	*The Applicability of IPSAS* April 2016
32E	New	IPSAS 40 January 2017
32F	Amended	*COVID-19: Deferral of Effective Dates* November 2020
32G	New	IPSAS 44 May 2022
33	Amended	IPSAS 33 January 2015

December 2006

IPSAS 14—EVENTS AFTER THE REPORTING DATE

CONTENTS

International Public Sector Accounting Standard 14, *Events After the Reporting Date*, is set out in paragraphs 1–34. All the paragraphs have equal authority. IPSAS 14 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe:

   (a) When an entity should adjust its financial statements for events after the reporting date; and

   (b) The disclosures that an entity should give about the date when the financial statements were authorized for issue, and about events after the reporting date.

   The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the accounting for, and disclosure of, events after the reporting date.**

3. [Deleted]

4. [Deleted]

Definitions

5. **The following term is used in this Standard with the meaning specified:**

   <u>Events after the reporting date</u> are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

   (a) **Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and**

   (b) **Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).**

   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.

Authorizing the Financial Statements for Issue

6. In order to determine which events satisfy the definition of events after the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorized for issue. The reporting date is the last day of the reporting period to which the financial statements relate. The date of authorization for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalize those statements for issue. The audit opinion is provided on those finalized financial statements. Events after the reporting date are all events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue, even if those events occur after (a) the publication of an announcement of the surplus or deficit, (b) the authorization of the financial statements of a controlled entity, or (c) publication of other selected information relating to the financial statements.

7. The process involved in preparing and authorizing the financial statements for issue may vary for different types of entities within and across jurisdictions. It can depend upon the nature of the entity, the governing body structure, the statutory requirements relating to that entity, and the procedures followed in preparing and finalizing the financial statements. Responsibility for authorization of financial statements of individual government agencies may rest with the head of the central finance agency (or the senior finance official/accounting officer, such as the controller or accountant-general). Responsibility for authorization of

consolidated financial statements of the government as a whole may rest jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

8. In some cases, as the final step in the authorization process, an entity is required to submit its financial statements to another body (for example, a legislative body such as Parliament or a local council). This body may have the power to require changes to the audited financial statements. In other cases, the submission of statements to the other body may be merely a matter of protocol or process, and that other body may not have the power to require changes to the statements. The date of authorization for issue of the financial statements will be determined in the context of the particular jurisdiction.

Recognition and Measurement

9. In the period between the reporting date and the date of authorization for issue, elected government officials may announce a government's intentions in relation to certain matters. Whether or not these announced government intentions would require recognition as adjusting events would depend upon (a) whether they provide more information about the conditions existing at reporting date, and (b) whether there is sufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

Adjusting Events after the Reporting Date

10. **An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date.**

11. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

(a) The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts any previously recognized provision related to this court case in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Asse*ts, or recognizes a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 24 in IPSAS 19.

(b) The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:

(i) The bankruptcy of a debtor that occurs after the reporting date usually confirms that the debtor was credit-impaired at the end of the reporting period; and

(ii) The sale of inventories after the reporting date may give evidence about their net realizable value at the reporting date;

(c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;

(d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another government under a revenue-sharing agreement in place during the reporting period;

(e) The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and

(f) The discovery of fraud or errors that show that the financial statements were incorrect.

Non-adjusting Events after the Reporting Date

12. **An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting date.**

13. The following are examples of non-adjusting events after the reporting date:

(a) Where an entity has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorized for issue. The fall in fair value does not normally relate to the condition of the property at the reporting date, but reflects circumstances that have arisen in the following period. Therefore, despite its policy of regularly revaluing, an entity would not adjust the amounts recognized in its financial statements for the properties. Similarly, the entity does not update the amounts disclosed for the property as at the reporting date, although it may need to give additional disclosure under paragraph 30; and

(b) Where an entity charged with operating particular community service programs decides after the reporting date, but before the financial statements are authorized, to provide/distribute additional benefits directly or indirectly to participants in those programs. The entity would not adjust the expenses recognized in its financial statements in the current reporting period, although the additional benefits may meet the conditions for disclosure as non-adjusting events under paragraph 29.

Dividends or Similar Distributions

14. **If an entity declares dividends or similar distributions after the reporting date, the entity shall not recognize those distributions as a liability at the reporting date.**

15. Dividends may arise in the public sector when, for example, a public sector entity controls and consolidates the financial statements of a commercial public sector entity that has outside ownership interests to whom it pays dividends. In addition, some public sector entities adopt a financial management framework, for example “purchaser provider” models, that require them to pay income distributions to their controlling entity, such as the central government.

16. If dividends or similar distributions to owners are declared after the reporting date but before the financial statements are authorized for issue, the dividends or similar distributions are not recognized as a liability at the reporting date because no obligation exists at that time. Such dividends or similar distributions are disclosed in the notes in accordance with IPSAS 1. Dividends and similar distributions do not include a return of capital.

Going Concern

17. The determination of whether the going concern assumption is appropriate needs to be considered by each entity. However, the assessment of going concern is likely to be of more relevance for individual entities than for a government as a whole. For example, an individual government agency may not be a going concern because the government of which it forms part has decided to transfer all its activities to another government agency. However, this restructuring has no impact upon the assessment of going concern for the government itself.

18. **An entity shall not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or the governing body determine after the reporting date**

either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so.

19. In assessing whether the going concern assumption is appropriate for an individual entity, those responsible for the preparation of the financial statements, and/or the governing body, need to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organizational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.

20. In the case of entities whose operations are substantially budget-funded, going concern issues generally only arise if the government announces its intention to cease funding the entity.

21. Some public sector entities may be required to be fully or substantially self-funding, and to recover the cost of goods and services from users. For any such entity, deterioration in operating results and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.

22. If the going concern assumption is no longer appropriate, this Standard requires an entity to reflect this in its financial statements. The impact of such a change will depend upon the particular circumstances of the entity, for example, whether operations are to be transferred to another government entity, sold, or liquidated. Judgment is required in determining whether a change in the carrying value of assets and liabilities is required.

23. When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the creation of additional liabilities or triggers clauses in debt contracts leading to the reclassification of certain debts as current liabilities.

24. IPSAS 1 requires certain disclosures if:

    (a) The financial statements are not prepared on a going concern basis. IPSAS 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or

    (b) Those responsible for the preparation of the financial statements are aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting date. IPSAS 1 requires such uncertainties to be disclosed.

Restructuring

25. Where a restructuring announced after the reporting date meets the definition of a non-adjustable event, the appropriate disclosures are made in accordance with this Standard. Guidance on the recognition of provisions associated with restructuring is found in IPSAS 19. Simply because a restructuring involves the disposal of a component of an entity, this does not in itself bring into question the entity's ability to continue as a going concern. However, where a restructuring announced after the reporting date means that an entity is no longer a going concern, the nature and amount of assets and liabilities recognized may change.

Disclosure

Disclosure of Date of Authorization for Issue

26. **An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity shall disclose that fact.**

27. It is important for users to know when the financial statements were authorized for issue, as the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any persons or organizations have the authority to amend the financial statements after issuance. Examples of individuals or bodies that may have the power to amend the financial statements after issuance are Ministers, the government of which the entity forms part, Parliament, or an elected body of representatives. If changes are made, the amended financial statements are a new set of financial statements.

Updating Disclosure about Conditions at the Reporting Date

28. **If an entity receives information after the reporting date, but before the financial statements are authorized for issue, about conditions that existed at the reporting date, the entity shall update disclosures that relate to these conditions in the light of the new information.**

29. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorized for issue, even when the information does not affect the amounts that the entity recognizes in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting date about a contingent liability that existed at the reporting date. In addition to considering whether it should now recognize a provision, an entity updates its disclosures about the contingent liability in the light of that evidence.

Disclosure of Non-adjusting Events after the Reporting Date

30. **If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:**

   (a) **The nature of the event; and**

   (b) **An estimate of its financial effect, or a statement that such an estimate cannot be made.**

31. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

   (a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since the reporting date;

   (b) The entity decides after the reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programs that it operates, and those additional benefits have a major impact on the entity;

   (c) A major public sector combination (IPSAS 40, *Public Sector Combinations* requires specific disclosures in such cases), a disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;

   (d) Announcing a plan to discontinue an operation or major program;

   (e) Major purchases of assets, classification of assets as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by other public sector entities;

   (f) The destruction of a major building by a fire after the reporting date;

   (g) Announcing, or commencing the implementation of, a major restructuring (see IPSAS 19);

(h) The introduction of legislation to forgive loans made to entities or individuals as part of a program;

(i) Abnormally large changes after the reporting date in asset prices or foreign exchange rates;

(j) In the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities (guidance on accounting for income taxes can be found in the relevant international or national accounting standard dealing with income taxes);

(k) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and

(l) Commencing major litigation arising solely out of events that occurred after the reporting date.

Effective Date

32. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

32A. **Paragraph 16 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged.**

32B. **Paragraph 33 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

32C. **Paragraph 31 was amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017, it shall disclose that fact.**

32D. **Paragraphs 3 and 4 were deleted and paragraphs 15 and 21 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

32E. **Paragraph 31 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

32F. **Paragraph 11 was amended by IPSAS 41, *Financial Instruments* issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

32G. **Paragraphs 16 and 31 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

33. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSAS) 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.

Withdrawal of IPSAS 14 (2001)

34. This Standard supersedes IPSAS 14, *Events after the Reporting Date*, issued in 2001.

Appendix

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 14.

Revision of IPSAS 14 as a result of the IASB's General Improvements Project 2003

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the Comparison with IFRS included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 14, issued in December 2001, was based on IAS 10 (Revised 1999), *Events after the Balance Sheet Date*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[2] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 10 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's Comprehensive Subscription Service can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 10 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 14 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 14 as a result of the IASB's Improvements to IFRS issued in 2008

BC7. The IPSASB reviewed the revisions to IAS 10 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

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1 The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 14 as a result of Part II of *Improvements to IPSAS 2015:* issues raised by stakeholders

BC8. When IPSAS 14 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders had indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector might not be completed within one year because of the levels of approval required. This had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB had concerns that not depreciating assets for an extended period of time might be inappropriate.

(b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements might not provide relevant information for these transfers. However, the IPSASB had recognized that the measurement and disclosure requirements in IFRS 5 might be appropriate where sales are intended to take place at fair value.

(c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements might not provide relevant information for public sector discontinued operations. However, the IPSASB had recognized that the disclosure requirements in IFRS 5 might be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference might result in entities following the requirements of IFRS 5 in circumstances where this might not be appropriate. The IPSASB had noted that IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSAS. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

BC8A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 14 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC9. 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 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.

Comparison with IAS 10

IPSAS 14, *Events After the Reporting Date* is drawn primarily from IAS 10 (revised 2003), *Events after the Balance Sheet Date* and includes an amendment made to IAS 10 as part of the *Improvements to IFRS* issued in May 2008. The main differences between IPSAS 14 and IAS 10 are as follows:

- IPSAS 14 notes that where the going concern assumption is no longer appropriate, judgment is required in determining the impact of this change on the carrying value of assets and liabilities recognized in the financial statements (paragraph 22).
- IPSAS 14 contains additional commentary on determining the date of authorization for issue (paragraphs 6, 7, and 8).
- IPSAS 14 uses different terminology, in certain instances, from IAS 10. The most significant examples are the use of the terms “net assets/equity,” and “reporting date” in IPSAS 14. The equivalent terms in IAS 10 are “equity,” and “balance sheet date.”
- IPSAS 14 does not use the term “income,” which in IAS 10 has a broader meaning than the term “revenue.”
- IPSAS 14 contains a definition of “reporting date,” IAS 10 does not contain a definition of “balance sheet date.”

International Public Sector Accounting Standard (IPSAS) 15, *Financial Instruments: Disclosure and Presentation* has been superseded by IPSAS 28, *Financial Instruments: Presentation*; IPSAS 29, *Financial Instruments: Recognition and Measurement*; and IPSAS 30, *Financial Instruments: Disclosures*. These Standards apply for annual financial statements covering periods beginning on or after January 1, 2013. As a result IPSAS 15 is no longer applicable and has been removed.

IPSAS 16—INVESTMENT PROPERTY

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 40 (Revised 2003), *Investment Property*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 40 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 16—INVESTMENT PROPERTY

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 16, *Investment Property* was issued in December 2001.

In December 2006 the IPSASB issued a revised IPSAS 16.

Since then, IPSAS 16 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSAS) (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 16

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
5	Deleted	IPSAS 43 January 2022
6	Amended	IPSAS 27 December 2009 *Improvements to IPSAS* April 2016 IPSAS 45 May 2023
7	Amended	IPSAS 43 January 2022
Heading above paragraph 8	Deleted	*Improvements to IPSAS* October 2018
8	Deleted	IPSAS 43 January 2022
Heading above paragraph 9	Deleted	*Improvements to IPSAS* October 2018

Paragraph Affected	How Affected	Affected By
9	Amended	*The Applicability of IPSAS* April 2016
10	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023
12	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022
13	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 47 May 2023
18A	New	IPSAS 40 January 2017
19	Amended	IPSAS 45 May 2023
20	Amended	*Improvements to IPSAS* April 2016 IPSAS 43 January 2022
25A	New	IPSAS 43 January 2022
26	Amended	IPSAS 43 January 2022
27	Amended	IPSAS 43 January 2022
29	Deleted	*Improvements to IPSAS* January 2010
33	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
34	Deleted	IPSAS 43 January 2022
35	Deleted	IPSAS 43 January 2022
38	Amended	IPSAS 46 May 2023
38A	New	IPSAS 43 January 2022
39	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
40	Amended	*Improvements to IPSAS* January 2010 *Improvements to IPSAS* April 2016 IPSAS 45 May 2023 IPSAS 46 May 2023
41	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
41A	New	IPSAS 43 January 2022

Paragraph Affected	How Affected	Affected By
		IPSAS 46 May 2023
41B	New	IPSAS 43 January 2022
41C	New	IPSAS 43 January 2022 IPSAS 46 May 2023
Heading above paragraph 42	Amended	IPSAS 46 May 2023
42	Amended	IPSAS 46 May 2023
43	Deleted	IPSAS 43 January 2022
45	Deleted	IPSAS 46 May 2023
46	Deleted	IPSAS 46 May 2023
47	Deleted	IPSAS 46 May 2023
48	Deleted	IPSAS 46 May 2023
49	Amended	IPSAS 43 January 2022 IPSAS 46 May 2023
49A	Amended	IPSAS 43 January 2022 IPSAS 46 May 2023
50	Amended	IPSAS 43 January 2022 IPSAS 46 May 2023
51	Deleted	IPSAS 46 May 2023
52	Deleted	IPSAS 46 May 2023
53	Deleted	IPSAS 46 May 2023
54	Deleted	IPSAS 46 May 2023
55	Deleted	IPSAS 46 May 2023
56	Deleted	IPSAS 46 May 2023
57	Amended	*Improvements to IPSAS* January 2010 IPSAS 46 May 2023
58	Deleted	IPSAS 46 May 2023
59	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 46 May 2023
60	Deleted	IPSAS 46 May 2023
Heading above paragraph 62	Amended	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
62	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
62A	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
62B	Amended	*Improvements to IPSAS* January 2010 IPSAS 46 May 2023
63	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
Heading above paragraph 65	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
65	Amended	IPSAS 43 January 2022 IPSAS 44 May 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
66	Amended	*Improvements to IPSAS* January 2010 *Improvements to IPSAS* October 2018
68	Amended	*Improvements to IPSAS* October 2018
70	Amended	IPSAS 46 May 2023
71	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023
72	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023
73	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023
76	Amended	*Improvements to IPSAS* October 2018
78	Amended	IPSAS 43 January 2022 IPSAS 47 May 2023
79	Amended	IPSAS 45 May 2023

Paragraph Affected	How Affected	Affected By
		IPSAS 46 May 2023
80	Amended	IPSAS 43 January 2022
81	Amended	IPSAS 47 May 2023
Heading above paragraph 85	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
85	Amended	IPSAS 43 January 2022
86	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
86(d)	Deleted	IPSAS 46 May 2023
Heading above paragraph 87	Amended	IPSAS 46 May 2023
87	Amended	IPSAS 40 January 2017 IPSAS 44 May 2022 IPSAS 46 May 2023
88	Amended	IPSAS 43 January 2022
89	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
Heading above paragraph 89A	New	IPSAS 46 May 2023
89A	New	IPSAS 46 May 2023
89B	New	IPSAS 46 May 2023
89C	New	IPSAS 46 May 2023
89D	New	IPSAS 46 May 2023
89E	New	IPSAS 46 May 2023
89F	New	IPSAS 46 May 2023
Heading above paragraph 90	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
90	Amended	IPSAS 40 January 2017 IPSAS 44 May 2022 IPSAS 46 May 2023
91	Deleted	IPSAS 33 January 2015
92	Deleted	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
93	Deleted	IPSAS 33 January 2015
94	Deleted	IPSAS 33 January 2015
95	Deleted	IPSAS 33 January 2015
96	Deleted	IPSAS 33 January 2015
Heading above paragraph 94	Amended	IPSAS 46 May 2023
97	Amended	*Improvements to IPSAS* October 2018 IPSAS 46 May 2023
98	Deleted	IPSAS 33 January 2015
99	Deleted	IPSAS 33 January 2015
Heading above paragraph 100	Amended	IPSAS 46 May 2023
Heading above paragraph 100A	New	IPSAS 43 January 2022
100A	New	IPSAS 43 January 2022
Heading above paragraph 100B	New	*Improvements to IPSAS* October 2018
100B	New	*Improvements to IPSAS* October 2018
100C	New	*Improvements to IPSAS* October 2018
100D	New	*Improvements to IPSAS* October 2018
101A	New	*Improvements to IPSAS* January 2010
101B	New	IPSAS 33 January 2015
101C	New	*Improvements to IPSAS* April 2016
101D	New	*The Applicability of IPSAS* April 2016
101E	New	IPSAS 40 January 2017
101F	New	*Improvements to IPSAS* October 2018
101G	New	*Improvements to IPSAS* October 2018
101H	New	IPSAS 43 January 2022
101I	New	IPSAS 44 May 2022
101J	New	IPSAS 45 May 2023
101K	New	IPSAS 46 May 2023
101L	New	IPSAS 47 May 2023
102	Amended	IPSAS 33 January 2015
Illustrative Decision Tree	Amended	*Improvements to IPSAS* January 2010

IPSAS 16—INVESTMENT PROPERTY

CONTENTS

International Public Sector Accounting Standard 16, *Investment Property*, is set out in paragraphs 1–103. All the paragraphs have equal authority. IPSAS 16 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the Conceptual Framework for *General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investment property.**

3. [Deleted]

4. [Deleted]

5. [Deleted]

6. This Standard does not apply to:

   (a) Biological assets related to agricultural activity (see IPSAS 27, Agriculture and IPSAS 45, *Property, Plant, and Equipment*); and

   (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

   <u>Carrying amount</u> (for the purpose of this Standard) is the amount at which an asset is recognized in the statement of financial position.

   <u>Cost</u> is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

   <u>Investment property</u> is property (land or a building – or part of a building – or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation, or both, rather than for:

   (a) **Use in the production or supply of goods or services, or for administrative purposes; or**

   (b) **Sale in the ordinary course of operations.**

   <u>Owner-occupied property</u> is property held (by the owner or by the lessee as a right-of-use asset) for use in the production or supply of goods or services, or for administrative purposes.

   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.

Classification of Property as Investment Property or Owner-Occupied Property

8. [Deleted]

9. There are a number of circumstances in which public sector entities may hold property to earn rental and for capital appreciation. For example, a public sector entity may be established to manage a government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property. Other public sector entities may also hold property for rentals or capital appreciation, and use the cash generated to finance their other (service delivery) activities. For example, a university or local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. IPSAS 45 applies to owned owner-occupied property and IPSAS 43, *Leases* applies to owner-occupied property held by a lessee as a right-of-use asset.

11. In some public sector jurisdictions, certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, a government department may control and account for certain buildings that are legally owned by the State. In such circumstances, references to owner-occupied property means property occupied by the entity that recognizes the property in its financial statements.

12. The following are examples of investment property:

(a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation that may be sold at a beneficial time in the future.

(b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation).

(c) A building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties.

(d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

(e) Property that is being constructed or developed for future use as investment property.

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

(b) [Deleted]

(c) Owner-occupied property (see IPSAS 43 and IPSAS 45), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(d) [Deleted]

(e) Property that is leased to another entity under a finance lease.

(f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with IPSAS 45.

(g) Property held for strategic purposes which would be accounted for in accordance with IPSAS 45.

14. In many jurisdictions, public sector entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations, the property will not meet the definition of investment property. However, where a public sector entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, public sector entities hold some property that comprises (a) a portion that is held to earn rentals or for capital appreciation rather than to provide services, and (b) another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

15. In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when a government agency (a) owns an office building that is held exclusively for rental purposes and rented on a commercial basis, and (b) also provides security and maintenance services to the lessees who occupy the building.

16. In other cases, the services provided are significant. For example, a government may own a hotel or hostel that it manages through its general property management agency. The services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel or hostel is owner-occupied property, rather than investment property.

17. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, a government or government agency that is the owner of a hotel may transfer some responsibilities to third parties under a management contract. The terms of such management contracts vary widely. At one end of the spectrum, the government's or government agency's position may, in substance, be that of a passive investor. At the other end of the spectrum, the government or government agency may simply have outsourced day-to-day functions, while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

18. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property, and with the related guidance in paragraphs 9–17. Paragraph 86(c) requires an entity to disclose these criteria when classification is difficult.

18A. Judgment is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a public sector combination within the scope of IPSAS 40, *Public Sector Combinations*. Reference should be made to IPSAS 40 to determine whether it is a public sector combination. The discussion in paragraphs 9–18 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a public sector combination as defined in IPSAS 40. Determining whether a specific transaction meets the definition of a public sector combination as defined in IPSAS 40 and includes an investment property as defined in this Standard requires the separate application of both Standards.

19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, the property would be accounted for as property, plant, and equipment in accordance with IPSAS 45.

Recognition

20. **An owned investment property shall be recognized as an asset when, and only when:**

(a) **It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and**

(b) **The cost or fair value of the investment property can be measured reliably[1].**

21. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset, and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognized.

22. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph 27 of this Standard, under certain circumstances an investment property may be acquired at no cost or for a nominal cost. In such cases, cost is the investment property's fair value as at the date of acquisition.

23. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property, and costs incurred subsequently to add to, replace part of, or service a property.

24. Under the recognition principle in paragraph 20, an entity does not recognize in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the repairs and maintenance of the property.

25. Parts of investment property may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognizes in the carrying

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard.

25A. An investment property held by a lessee as a right-of-use asset shall be recognized in accordance with IPSAS 43.

Measurement at Recognition

26. **An owned investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).**

27. **Where an owned investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**

28. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes, and other transaction costs.

29. [Deleted]

30. The cost of investment property is not increased by:

    (a) Start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management);

    (b) Operating losses incurred before the investment property achieves the planned level of occupancy; or

    (c) Abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.

31. If payment for investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.

32. An investment property may be acquired through a non-exchange transaction. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to initial recognition, to adopt either the current value model (paragraphs 42–64) or the historical cost model (paragraph 65).

34. [Deleted]

35. [Deleted]

36. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

37. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

38. The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various measurements within the range can be reasonably assessed and used when measuring fair value. If the entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

38A. An investment property held by a lessee as a right-of-use asset shall be measured initially in accordance with IPSAS 43.

Measurement after Recognition

Accounting Policy

39. **With the exception noted in paragraph 41A, an entity shall choose as its accounting policy either the current value model in paragraphs 42–64 or the historical cost model in paragraph 65, and shall apply that policy to all of its investment property.**

40. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the current value model to the historical cost model will result in a more relevant presentation.

41. This Standard requires all entities to measure the fair value of investment property, for the purpose of either measurement (if the entity uses the current value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

41A. **An entity may:**

(a) **Choose either the current value model or the historical cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and**

(b) **Choose either the current value model or the historical cost model for all other investment property, regardless of the choice made in (a).**

41B. Some insurers and other entities operate an internal property fund that issues notional units, with some units held by investors in linked contracts and others held by the entity. Paragraph 41A does not permit an entity to measure the property held by the fund partly at cost and partly at fair value.

41C. If an entity chooses different models for the two categories described in paragraph 41A, sales of investment property between pools of assets measured using different models shall be recognized at fair value and the cumulative change in fair value shall be recognized in surplus or deficit. Accordingly, if an investment property is sold from a pool in which the current value model is used into a pool in which the historical cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

Current Value Model

42. **After initial recognition, an entity that chooses the current value model shall measure all of its investment property at fair value, except in the cases described in paragraph 62.**

43. [Deleted]

44. **A gain or loss arising from a change in the fair value of investment property shall be recognized in surplus or deficit for the period in which it arises.**

45. [Deleted]

46. [Deleted]

47. [Deleted]

48. [Deleted]

49. When measuring the fair value of investment property in accordance with Appendix D of IPSAS 46, an entity shall ensure that the fair value reflects, among other things, rental revenue from current leases and other assumptions that market participants would use when pricing the investment property under current market conditions.

49A. When a lessee uses the current value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying asset, at fair value.

50. IPSAS 43 specifies the basis for initial recognition of the cost of an investment property held by a lessee as a right-of-use asset. Paragraph 42 requires investment property held by a lessee as a right-of-use asset to be remeasured, if necessary, to fair value if the entity chooses the current value model. When lease payments are at market rates, the fair value of an investment property held by a lessee as a right-of-use asset at acquisition, net of all expected lease payments (including those relating to recognized lease liabilities), should be zero. Thus, remeasuring a right-of-use asset from cost in accordance with IPSAS 43 to fair value in accordance with paragraph 42 (taking into account the requirements in paragraph 59) should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value basis is made after initial recognition.

51. [Deleted]

52. [Deleted]

53. [Deleted]

54. [Deleted]

55. [Deleted]

56. [Deleted]

57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property after a change in use) that the variability in the range of reasonable fair value measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single measure of fair value is negated. This may indicate that the fair value of the property will not be reliably measurable on a continuing basis (see paragraph 62).

58. [Deleted]

59. In determining the carrying amount of investment property under the fair value basis, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities. For example:

(a) Equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognized separately as property, plant, and equipment.

(b) If an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.

(c) The fair value of investment property excludes prepaid or accrued lease revenue, because the entity recognizes it as a separate liability or asset.

(d) The fair value of investment property held by a lessee as a right-of-use asset reflects expected cash flows (including variable lease payments that are expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized lease liability, to arrive at the carrying amount of the investment property using the fair value basis.

60. [Deleted]

61. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized liabilities) will exceed the present value of the related cash receipts. An entity applies IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognize a liability and, if so, how to measure it.

Inability to Measure Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, the market for comparable property is inactive (e.g., there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at historical cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall measure that investment property using the historical cost model in IPSAS 45 for owned investment property or in accordance with IPSAS 43 for investment property held by a lessee as a right-of-use asset. The**

residual value of the investment property shall be assumed to be zero. The entity shall continue to apply IPSAS 43 or IPSAS 45 until disposal of the investment property.

62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the historical cost model in accordance with IPSAS 45 for owned assets or IPSAS 43 for investment property held by a lessee as a right-of-use asset.

62B. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be measured reliably.

63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the historical cost model in accordance with IPSAS 45 or IPSAS 43, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the historical cost model for one investment property, the entity shall continue to account for each of the remaining properties using the current value model.

64. **If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.**

Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure investment property:**

(a) **In accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale);**

(b) **In accordance with IPSAS 43 if it is held by a lessee as a right-of-use asset and is not held for sale in accordance with IPSAS 44; and**

(c) **In accordance with the requirements in IPSAS 45 for the historical cost model in all other cases.**

Transfers

66. **An entity shall transfer a property to or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Examples of evidence of a change in use include:**

(a) **Commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;**

(b) **Commencement of development with a view to sale, for a transfer from investment property to inventories;**

(c) **End of owner-occupation, for a transfer from owner-occupied property to investment property; and**

(d) **Inception of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.**

(e) [Deleted]

67. A government's use of property may change over time. For example, a government may decide to occupy a building currently used as an investment property, or to convert a building currently used as naval quarters or for administrative purposes into a hotel and to let that building to private sector operators. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as property, plant, and equipment until its occupation ceased and it is reclassified as an investment property.

68. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

69. A government property department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the government decided to hold the building for its ability to generate rent revenue and its capital appreciation potential, it would be reclassified as an investment property on commencement of any subsequent operating lease.

70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the current value model for investment property. When an entity uses the historical cost model, transfers between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

71. **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with IPSAS 43, IPSAS 45 or IPSAS 12, shall be its fair value at the date of change in use.**

72. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IPSAS 45 for owned property and IPSAS 43 for property held by a lessee as a right-of-use asset up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with IPSAS 45.**

73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property (or right-of-use asset) and recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with IPSAS 45. In other words:

(a) Any resulting decrease in the carrying amount of the property is recognized in surplus or deficit. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus.

(b) Any resulting increase in the carrying amount is treated as follows:

(i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in surplus or deficit. The amount recognized in surplus or deficit does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) if no impairment loss had been recognized.

(ii) Any remaining part of the increase is credited directly to net assets/equity in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in net assets/equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

74. **For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in surplus or deficit.**

75. The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

Guidance on Initially Measuring Self-Constructed Investment Property at Fair Value

76. **When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, or when its fair value becomes reliably measurable (whichever is earlier), any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in surplus or deficit.**

Disposals

77. **An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.**

78. The disposal of an investment property may be achieved by sale or by entering into a finance lease. The date of disposal for the investment property is the date the recipient obtains control of the investment property in accordance with the requirements in IPSAS 47, *Revenue*. IPSAS 43 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

79. If, in accordance with the recognition principle in paragraph 20, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the historical cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the current value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases, it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

80. **Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and shall be recognized in surplus or deficit (unless IPSAS 43 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.**

81. The amount of consideration to be included in the surplus or deficit arising from the derecognition of an investment property is determined in accordance with the requirements for determining the transaction

consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.

82. An entity applies IPSAS 19 or other standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

83. **Compensation from third parties for investment property that was impaired, lost, or given up shall be recognized in surplus or deficit when the compensation becomes receivable.**

84. Impairments or losses of investment property, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) Impairments of investment property are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(b) Retirements or disposals of investment property are recognized in accordance with paragraphs 77–82 of this Standard;

(c) Compensation from third parties for investment property that was impaired, lost, or given up is recognized in surplus or deficit when it becomes receivable; and

(d) The cost of assets restored, purchased, or constructed as replacements is determined in accordance with paragraphs 26–38 of this Standard.

Disclosure

Current Value Model and Historical Cost Model

85. The disclosures below apply in addition to those in IPSAS 43. In accordance with IPSAS 43, the owner of an investment property provides lessors' disclosures about leases into which it has entered. A lessee that holds an investment property as a right-of-use asset provides lessees' disclosures as required by IPSAS 43 and lessors' disclosures as required by IPSAS 43 for any operating leases into which it has entered.

86. **An entity shall disclose:**

(a) **Whether it applies the current value or the historical cost model;**

(b) [Deleted]

(c) **When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;**

(d) [Deleted]

(e) **The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;**

(f) **The amounts recognized in surplus or deficit for:**

(i) **Rental revenue from investment property;**

(ii) **Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and**

(iii) **Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.**

(g) **The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and**

(h) **Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.**

Current Value Model

87. **In addition to the disclosures required by paragraph 86, an entity that applies the current value model in paragraphs 42–64 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:**

(a) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of an asset;**

(b) **Additions resulting from acquisitions through public sector combinations;**

(c) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

(d) **Net gains or losses from fair value adjustments;**

(e) **The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**

(f) **Transfers to and from inventories and owner-occupied property; and**

(g) **Other changes.**

88. **When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognized as separate assets and liabilities as described in paragraph 59, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognized lease liabilities that have been added back, and any other significant adjustments.**

89. **In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in IPSAS 45 or in accordance with IPSAS 43, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:**

(a) **A description of the investment property;**

(b) **An explanation of why fair value cannot be measured reliably;**

(c) **If possible, the range of estimates within which fair value is highly likely to lie; and**

(d) **On disposal of investment property not carried at fair value:**

(i) **The fact that the entity has disposed of investment property not carried at fair value;**

(ii) **The carrying amount of that investment property at the time of sale; and**

(iii) **The amount of gain or loss recognized.**

Current Value Measurement

89A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For investment properties that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

89B. To meet the objectives in paragraph 89A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 89A, an entity shall disclose additional information necessary to meet those objectives.

89C. To meet the objectives in paragraph 89A, an entity shall disclose, at a minimum, the following information for each class of investment property (see paragraph 89D for information on determining appropriate classes of investment property) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of investment property are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of investment property are those that this Standard requires or permits in the statement of financial position in particular circumstances;

(b) For recurring and non-recurring fair value measurements, whether the fair value measurements are estimated using observable or unobservable inputs. For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investment properties held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

89D. An entity shall determine the appropriate disaggregation of investment property on the basis of the following:

(a) The nature, characteristics and risks of the investment property; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of investment property for which disclosures about fair value measurements should be provided requires judgment. Investment property will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation of investment property, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

89E. For each class of investment property not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 89C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 89C(c). For such investment properties, an entity does not need to provide the other disclosures required by this Standard.

89F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Historical Cost Model

90. **In addition to the disclosures required by paragraph 86, an entity that applies the historical cost model in paragraph 65 shall disclose:**

(a) **The depreciation methods used;**

(b) **The useful lives or the depreciation rates used;**

(c) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;**

(d) **The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:**

(i) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;**

(ii) **Additions resulting from acquisitions through public sector combinations;**

(iii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

(iv) **Depreciation;**

(v) **The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vi) **The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**

(vii) **Transfers to and from inventories and owner-occupied property; and**

(viii) **Other changes; and**

(e) **The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot measure the fair value of the investment property reliably, the entity shall disclose:**

(i) **A description of the investment property;**

(ii) **An explanation of why fair value cannot be measured reliably; and**

(iii) **If possible, the range of estimates within which fair value is highly likely to lie.**

Transitional Provisions

91. [Deleted]

92. [Deleted]

93. [Deleted]

Current Value Model

94. [Deleted]

95. [Deleted]

96. [Deleted]

97. An entity that (a) has previously applied IPSAS 16 (2001), and (b) elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property, shall recognize the effect of that election as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the election is first made. In addition:

    (a) If the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (measured on a basis that satisfies the definition of fair value and the guidance in Appendix D of IPSAS 46), the entity is encouraged, but not required:

        (i) To adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and

        (ii) To restate comparative information for those periods; and

    (b) If the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.

Historical Cost Model

98. [Deleted]

99. [Deleted]

100. **For entities that have previously applied IPSAS 16 (2001), the requirements of paragraphs 36–38 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.**

IPSAS 43

100A. **An entity applying IPSAS 43, and its related amendments to this Standard, for the first time shall apply the transition requirements in IPSAS 43 to its investment property held as a right-of-use asset.**

Transfers of Investment Property

100B. *Improvements to IPSAS, 2018*, issued in October 2018, amended paragraphs 66 and 68. An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application). At the date of initial application, an entity shall reassess the classification of property held at that date and, if applicable, reclassify property applying paragraphs 9–18 to reflect the conditions that exist at that date.

100C. Notwithstanding the requirements in paragraph 100B, an entity is permitted to apply the amendments to paragraphs 66 and 68 retrospectively in accordance with IPSAS 3 if, and only if, that is possible without the use of hindsight.

100D. If, in accordance with paragraph 100B, an entity reclassifies property at the date of initial application, the entity shall:

    (a) Account for the reclassification applying the requirements in paragraphs 70–75. In applying paragraphs 70–75, an entity shall:

        (i) Read any reference to the date of change in use as the date of initial application; and

(ii) Recognize any amount that, in accordance with paragraphs 70–75, would have been recognized in surplus or deficit as an adjustment to the opening balance of accumulated surplus or deficit at the date of initial application.

(b) Disclose the amounts reclassified to, or from, investment property in accordance with paragraph 100B. The entity shall disclose those amounts reclassified as part of the reconciliation of the carrying amount of investment property at the beginning and end of the period as required by paragraphs 87 and 90.

Effective Date

101. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

101A. **Paragraphs 12, 13, 40, 57, 59, 62, 63, and 66 were amended, paragraph 29 was deleted and paragraphs 62A and 62B were added by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2011. An entity is encouraged to apply the amendments to investment property under construction from any date before January 1, 2011 provided that the fair values of investment properties under construction were determined at those dates. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact and at the same time apply the amendments to paragraphs 8 and 107A of IPSAS 17.**

101B. **Paragraphs 91, 92, 93, 94, 95, 96, 98, 99 and 102 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

101C. **Paragraph 40 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

101D. **Paragraphs 3 and 4 were deleted and paragraph 9 was amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

101E. **Paragraph 18A was added and paragraphs 87 and 90 amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

101F. **Paragraphs 76 and 97 were amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

101G. **Paragraphs 66 and 68 were amended, and paragraphs 100B–100D added, by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2019, it shall disclose that fact.**

101H. **IPSAS 43 issued in January 2022, amended the scope of IPSAS 16 by defining investment property to include both owned investment property and property held by a lessee as a right-of-use asset. Paragraphs 7, 10, 12, 13, 20, 26, 27, 39, 49, 50, 59, 62, 62A, 63, 65, 71, 72, 73, 78, 80, 85, 86, 88, and 89 were amended, paragraphs 25A, 38A, 41A, 41B, 41C, 49A and 100A and its related heading were added, and paragraphs 5, 8, 34, 35 and 43 were deleted by IPSAS 43. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

101I. **Paragraphs 65, 87 and 90 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

101J. **Paragraphs 6, 10, 13, 19, 33, 39, 62, 62A, 63, 65, 71-73, and 89 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

101K. **Paragraphs 33, 38, 39, 40, 41, 41A, 41C, 42, 49, 49A, 50, 57, 59, 62, 62A, 62B, 63, 65, 70, 79, 86, 87, 89, 90 and 97 and the related headings of paragraphs 42, 62, 65, 86, 87, 89A, 90, 97 and 100 were amended, paragraphs 89A–89F were added, and paragraphs 45–48, 51–56, 58, 60, and 86(d) were deleted by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

101L. **Paragraphs 13, 78, and 81 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

102. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Withdrawal of IPSAS 16 (2001)

103. This Standard supersedes IPSAS 16, *Investment Property*, issued in 2001.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 16.

Revision of IPSAS 16 as a result of the IASB's General Improvements Project 2003

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IAS)[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 16, issued in December 2001, was based on IAS 40 (2000), *Investment Property*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[2] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 40 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 40 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 16 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 16 as a result of the IASB's *Improvements to IFRS* issued in 2008

BC7. The IPSASB reviewed the revisions to IAS 40 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

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1 The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 16 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC8. 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 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 16 as a result of *Improvements to IPSAS*, 2018

BC9. Paragraph 76 included requirements regarding the measurement of self-constructed investment property that will be carried at fair value following its transfer from another class of asset once an entity completed its construction or development. As a result of the amendments made by *Improvements to IPSAS* issued in January 2010, investment property under construction is now within the scope of IPSAS 16, and fair value measurement may commence during construction. Consequently, the IPSASB decided to amend paragraph 76.

BC10. Paragraph 97 includes transitional provisions for those entities that elect, for the first time, to classify and account for some or all eligible property interests held under operating leases as investment property. These provisions have been restated following the deletion of other transitional provisions (to which paragraph 97 previously referred) as a result of the issuance of IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*.

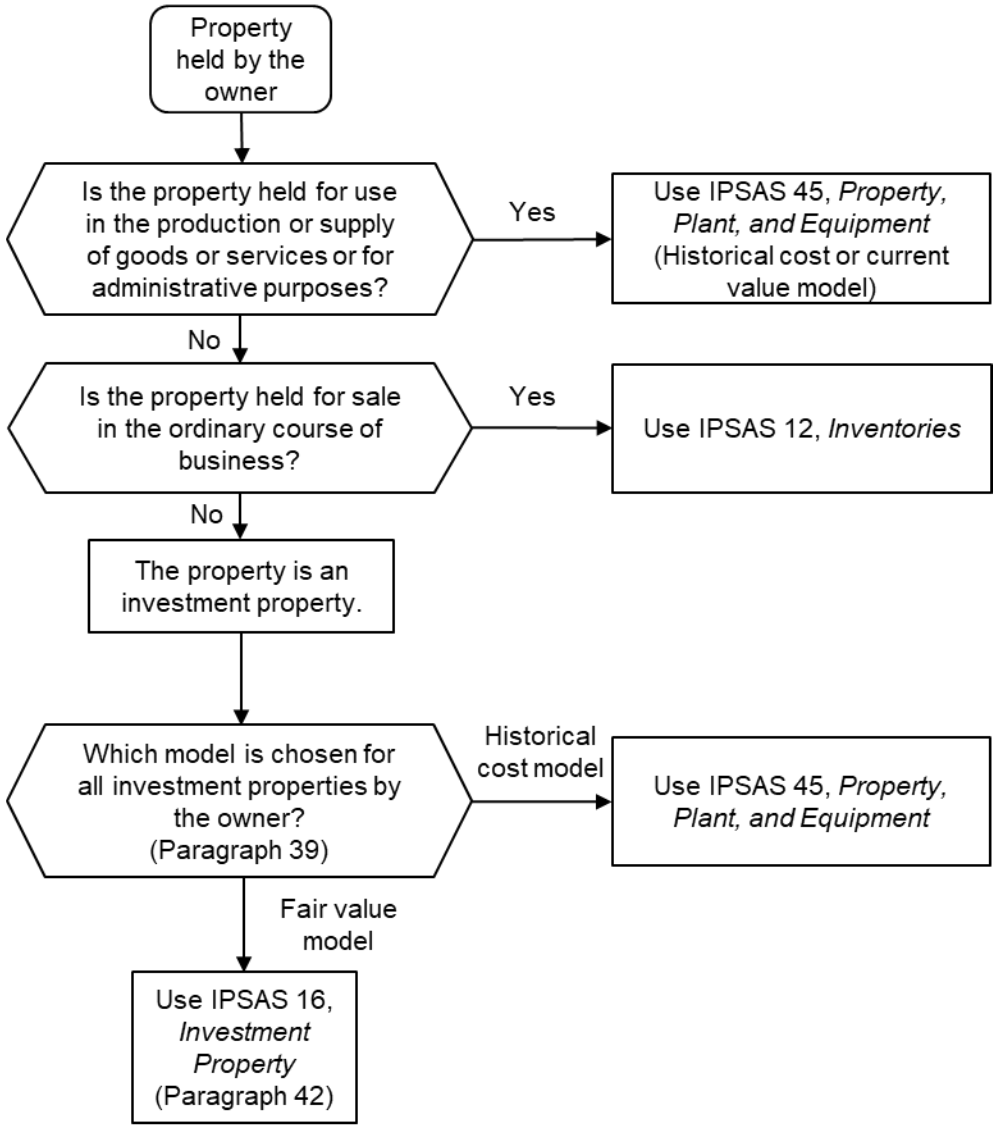
BC11. The IPSASB reviewed the revisions to IAS 40 included in the narrow scope amendments titled *Transfers of Investment Property* (Amendments to IAS 40) issued by the IASB in December 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

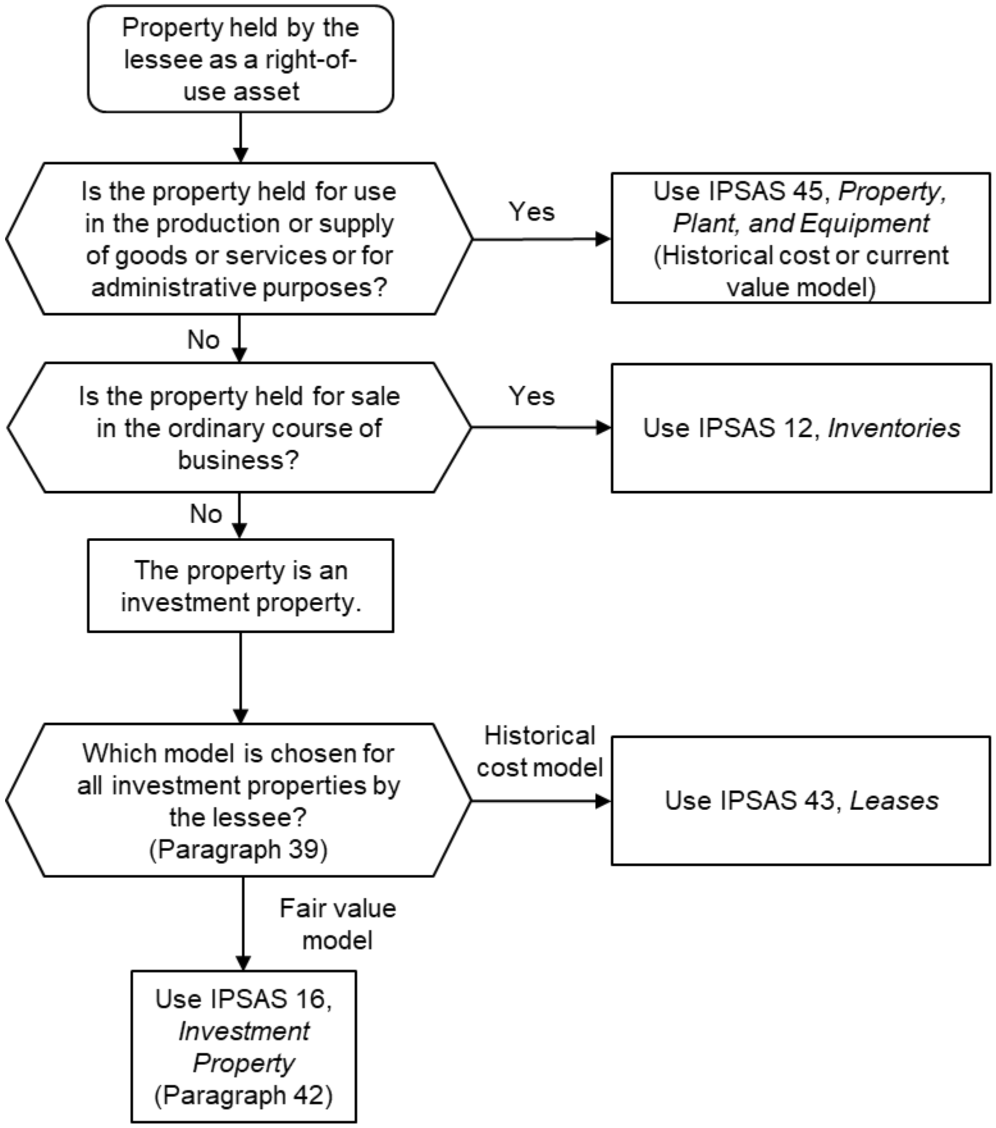
Revision of IPSAS 16 as a result of IPSAS 46, *Measurement*

BC12. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed to update measurement terminology and disclosure requirements for consistency with IPSAS 46, remove guidance on measurement in IPSAS 16 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

Illustrative Decision Trees

These decision trees accompany, but are not part of, IPSAS 16.




Property held by the lessee as a right-of-use asset
Is the property held for use in the production or supply of goods or services or for administrative purposes?
Yes
Use IPSAS 45, *Property, Plant, and Equipment* (Historical cost or current value model)
No
Is the property held for sale in the ordinary course of business?
Yes
Use IPSAS 12, *Inventories*
No
The property is an investment property.
Which model is chosen for all investment properties by the lessee? (Paragraph 39)
Historical cost model
Use IPSAS 43, *Leases*
Fair value model
Use IPSAS 16, *Investment Property* (Paragraph 42)

COMPARISON WITH IAS 40

IPSAS 16 is drawn primarily from IAS 40 (2003), *Investment Property* and includes amendments made to IAS 40 as part of the *Improvements to IFRS* issued in May 2008. At the time of initially issuing this Standard, the IPSASB had not considered the applicability of IFRS 4, *Insurance Contracts*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 16 did not reflect amendments made to IAS 40 consequent upon the issue of those IFRS. The IPSASB has subsequently issued IPSAS 44, *Non-current Assets Held for sale and Discontinued Operations* in May 2022. Therefore, all amendments made to IAS 40 from the issuance of IFRS 5 are now reflected in IPSAS 16. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service that also generates cash inflows. Such property is accounted for in accordance with IPSAS 45, *Property, Plant, and Equipment*.
- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant example is the use of the term “statement of financial performance” in IPSAS 16. The equivalent term in IAS 40 is “income statement.”
- IPSAS 16 does not use the term “income,” which in IAS 40 has a broader meaning than the term “revenue.”

IPSAS 17—PROPERTY, PLANT, AND EQUIPMENT

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 16 (Revised 2003), *Property, Plant and Equipment*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 16 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

The approved text of the IFRS Accounting Standards is that published by the IASB in the English language, and copies may be obtained directly from IFRS Foundation, Customer Service, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD, United Kingdom.

E-mail: customerservices@ifrs.org

Internet: www.ifrs.org

IPSAS 17—PROPERTY, PLANT, AND EQUIPMENT

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 17, *Property, Plant, and Equipment* was issued in December 2001.

In December 2006 the IPSASB issued a revised IPSAS 17.

Since then, IPSAS 17 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- *Improvements to IPSAS 2019* (issued January 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2014* (issued January 2015)
- IPSAS 32, *Service Concession Arrangements: Grantor* (issued October 2011)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 17

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
5	Amended	IPSAS 32 October 2011 *Improvements to IPSAS* April 2016 *Improvements to IPSAS* January 2020
6	Amended	IPSAS 27 December 2009 *Improvements to IPSAS* April 2016 IPSAS 44 May 2022
7	Deleted	IPSAS 43 January 2022
8	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022
13	Amended	*Improvements to IPSAS* April 2016
14	Amended	*Improvements to IPSAS* April 2016
17	Amended	*Improvements to IPSAS* January 2015
19	Amended	IPSAS 43 January 2022
20	Amended	*Improvements to IPSAS* April 2016
31	Amended	IPSAS 39 July 2016 *Improvements to IPSAS* January 2022
31	Amended	*Improvements to IPSAS* January 2022
34A	New	*Improvements to IPSAS* January 2022
36A	New	*Improvements to IPSAS* April 2016
41	Deleted	IPSAS 43 January 2022
50	Amended	*Improvements to IPSAS* January 2015
51A	New	Impairment of Revalued Assets July 2016
52	Amended	*Improvements to IPSAS* April 2016
60	Amended	IPSAS 40 January 2017 IPSAS 43 January 2022
65	Amended	IPSAS 31 January 2010
71	Amended	IPSAS 44 May 2022
72	Amended	*Improvements to IPSAS* January 2015
78A	New	*Improvements to IPSAS* January 2015
79	Amended	*Improvements to IPSAS* October 2011
81	Amended	*Improvements to IPSAS* October 2011

Paragraph Affected	How Affected	Affected By
83	Amended	*Improvements to IPSAS* October 2011 IPSAS 43 January 2022
83A	Amended	*Improvements to IPSAS* January 2010 IPSAS 44 May 2022 IPSAS 47 May 2023
84	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 47 May 2023
87	Amended	IPSAS 47 May 2023
88	Amended	*Improvements to IPSAS* October 2011 IPSAS 40 January 2017 IPSAS 44 May 2022
89	Amended	*Improvements to IPSAS* January 2022
89A	New	*Improvements to IPSAS* January 2022
93	Amended	*Improvements to IPSAS* October 2011
94	Amended	IPSAS 44 May 2022
95	Deleted	IPSAS 33 January 2015
96	Deleted	IPSAS 33 January 2015
97	Deleted	IPSAS 33 January 2015
98	Deleted	IPSAS 33 January 2015
99	Deleted	IPSAS 33 January 2015
100	Deleted	IPSAS 33 January 2015
101	Deleted	IPSAS 33 January 2015
102	Deleted	IPSAS 33 January 2015
103	Deleted	IPSAS 33 January 2015
104	Deleted	IPSAS 33 January 2015
106	Deleted	*Improvements to IPSAS* October 2018 *Improvements to IPSAS* January 2020
106A	New	*Improvements to IPSAS* January 2015
106B	New	*Improvements to IPSAS* January 2022
107A	New	*Improvements to IPSAS* January 2010
107B	New	*Improvements to IPSAS* January 2010

Paragraph Affected	How Affected	Affected By
107C	New	IPSAS 32 October 2011
107D	New	*Improvements to IPSAS* October 2011
107E	New	*Improvements to IPSAS* January 2015
107F	New	IPSAS 33 January 2015
107G	New	*Improvements to IPSAS* April 2016
107H	New	*Improvements to IPSAS* April 2016
107I	New	*Improvements to IPSAS* April 2016
107J	New	*Improvements to IPSAS* April 2016
107K	New	*The Applicability of IPSAS* April 2016
107L	New	Impairment of Revalued Assets July 2016
107M	New	IPSAS 39 July 2016
107N	New	IPSAS 40 January 2017
107O	New	*Improvements to IPSAS* October 2018
107P	New	*Improvements to IPSAS* January 2020
107Q	New	*Improvements to IPSAS* January 2022
107R	New	IPSAS 43 January 2022
107S	New	IPSAS 44 May 2022
107T	New	IPSAS 47 May 2023
108	Amended	IPSAS 33 January 2015

IPSAS 17—PROPERTY, PLANT, AND EQUIPMENT

CONTENTS

International Public Sector Accounting Standard 17, *Property, Plant, and Equipment*, is set out in paragraphs 1–109. All the paragraphs have equal authority. IPSAS 17 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are (a) the recognition of the assets, (b) the determination of their carrying amounts, and (c) the depreciation charges and impairment losses to be recognized in relation to them.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, except:**

    (a) **When a different accounting treatment has been adopted in accordance with another IPSAS; and**

    (b) **In respect of heritage assets. However, the disclosure requirements of paragraphs 88, 89, and 92 apply to those heritage assets that are recognized.**

3. [Deleted]

4. [Deleted]

5. This Standard applies to property, plant, and equipment including:

    (a) Weapons systems;

    (b) Infrastructure assets; and

    (c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*.

6. This Standard does not apply to:

    (a) Biological assets related to agricultural activity other than bearer plants (see IPSAS 27, *Agriculture*). This Standard applies to bearer plants but does not apply to the produce on bearer plants;

    (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources).

    (c) Property, plant, and equipment classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.

    However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 6(a) or 6(b).

7. [Deleted]

8. An entity using the cost model for investment property in accordance with IPSAS 16, *Investment Property* shall use the cost model in this Standard for owned investment property.

Heritage Assets

9. This Standard does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant, and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

10. Some assets are described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

(a) Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

(c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and

(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

11. Some heritage assets have future economic benefits or service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of property, plant, and equipment. For other heritage assets, their future economic benefit or service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of both future economic benefits and service potential can affect the choice of measurement base.

12. The disclosure requirements in paragraphs 88–94 require entities to make disclosures about recognized assets. Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example:

(a) The measurement basis used;

(b) The depreciation method used, if any;

(c) The gross carrying amount;

(d) The accumulated depreciation at the end of the period, if any; and

(e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Definitions

13. **The following terms are used in this Standard with the meanings specified:**

A <u>bearer plant</u> is a living plant that:

(a) **Is used in the production or supply of agricultural produce:**

(b) **Is expected to bear produce for more than one period: and**

(c) **Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.**

(Paragraphs 9A–9C of IPSAS 27 elaborate on this definition of a bearer plant.)

<u>Carrying amount</u> (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Class of property, plant and equipment means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Property, plant, and equipment are tangible items that:

(a) **Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**

(b) **Are expected to be used during more than one reporting period.**

Recoverable amount is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non cash-generating asset's fair value less costs to sell and its value in use.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

(a) **The period over which an asset is expected to be available for use by an entity; or**

(b) **The number of production or similar units expected to be obtained from the asset by an entity.**

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.

Recognition

14. **The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:**

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

(b) **The cost or fair value of the item can be measured reliably[1].**

15. [Deleted]

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

16. [Deleted]

17. Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this IPSAS when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory.

18. This standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value.

19. An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant and equipment, such as depreciation of right-of-use assets.

20. Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognized as an asset in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems.

Infrastructure Assets

21. Some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

    (a) They are part of a system or network;

    (b) They are specialized in nature and do not have alternative uses;

    (c) They are immovable; and

    (d) They may be subject to constraints on disposal.

    Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems, and communication networks.

Initial Costs

22. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition of such property, plant, and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant, and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant, and equipment qualify for recognition as assets, because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an

asset and related assets is reviewed for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Subsequent Costs

23. Under the recognition principle in paragraph 14, an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the "repairs and maintenance" of the item of property, plant, and equipment.

24. Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 14, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 82–87).

25. A condition of continuing to operate an item of property, plant, and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at Recognition

26. **An item of property, plant, and equipment that qualifies for recognition as an asset shall be measured at its cost.**

27. **Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**

28. An item of property, plant, and equipment may be acquired through a non-exchange transaction. For example, land may be contributed to a local government by a developer at no or nominal consideration, to enable the local government to develop parks, roads, and paths in the development. An asset may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. Under these circumstances, the cost of the item is its fair value as at the date it is acquired.

29. For the purposes of this Standard, the measurement at recognition of an item of property, plant, and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph 27, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 44, and the supporting commentary in paragraphs 45–50, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods.

Elements of Cost

30. The cost of an item of property, plant, and equipment comprises:

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for 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.

31. Examples of directly attributable costs are:

(a) Costs of employee benefits (as defined in IPSAS 39, *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant, and equipment;

(b) Costs of site preparation;

(c) Initial delivery and handling costs;

(d) Installation and assembly costs;

(e) Costs of testing whether the asset is functioning properly, (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and

(f) Professional fees.

32. An entity applies IPSAS 12, *Inventories*, to the costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and IPSAS 17 are recognized and measured in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

33. Examples of costs that are not costs of an item of property, plant, and equipment are:

(a) Costs of opening a new facility;

(b) Costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) Costs of conducting business in a new location or with a new class of customers (including costs of staff training); and

(d) Administration and other general overhead costs.

34. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:

(a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) Initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) Costs of relocating or reorganizing part or all of the entity's operations.

34A. Items may be produced while bringing an item of property, plant, and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognizes the proceeds from selling any such items, and the cost of those items, in surplus or deficit in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IPSAS 12.

35. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.

36. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, *Borrowing Costs*, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.

36A. Bearer plants are accounted for in the same way as self-constructed items of property, plant, and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to ‘construction’ in this Standard should be read as covering activities that are necessary to cultivate bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Measurement of Cost

37. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 27, its fair value at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5.

38. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance, or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

39. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

40. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset, or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

41. [Deleted]

Measurement after Recognition

42. **An entity shall choose either the cost model in paragraph 43 or the revaluation model in paragraph 44 as its accounting policy, and shall apply that policy to an entire class of property, plant, and equipment.**

Cost Model

43. **After recognition as an asset, an item of property, plant, and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses.**

Revaluation Model

44. **After recognition as an asset, an item of property, plant, and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 54–56.**

45. The fair value of items of property is usually determined from market-based evidence by appraisal. The fair value of items of plant and equipment is usually their market value determined by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles, and many types of plant and equipment.

46. For some public sector assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of such assets.

47. If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available.

In the case of specialized buildings and other man-made structures, fair value may be estimated using depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation, because of its significance to the community.

48. If there is no market-based evidence of fair value because of the specialized nature of the item of plant, and equipment, an entity may need to estimate fair value using, for example, reproduction cost, depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

49. The frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

50. When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 54 and 55.

51. **If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.**

51A. Impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.

52. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) Land;

(b) Operational buildings;

(c) Roads;

(d) Machinery;

(e) Electricity transmission networks;

(f) Ships;

(g) Aircraft;

(h) Weapons systems;

(i) Motor vehicles;

(j) Furniture and fixtures;

(k) Office equipment;

(l) Oil rigs; and

(m) Bearer plants.

53. The items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

54. **If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**

55. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**

56. **Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.**

57. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

58. Guidance on the effects on taxes on surpluses, if any, resulting from the revaluation of property, plant, and equipment can be found in the relevant international or national accounting standard dealing with income taxes.

Depreciation

59. **Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.**

60. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be

required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft. If an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

61. A significant part of an item of property, plant, and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

62. To the extent that an entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

63. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

64. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**

65. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset, and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant, and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with IPSAS 31, *Intangible Assets*.

Depreciable Amount and Depreciation Period

66. **The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**

67. **The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

68. Depreciation is recognized even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.

69. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount.

70. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

71. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group

that is classified as held for sale) in accordance with IPSAS 44 and the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

72. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

(a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle.

(c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.

(d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

73. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

74. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

75. If the cost of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Depreciation Method

76. **The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.**

77. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**

78. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

78A. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits or service potential of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

Impairment

79. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

Compensation for Impairment

80. **Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.**

81. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) Impairments of items of property, plant, and equipment are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(b) Derecognition of items of property, plant, and equipment retired or disposed of is determined in accordance with this Standard;

(c) Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable; and

(d) The cost of items of property, plant, and equipment restored, purchased, or constructed as replacement is determined in accordance with this Standard.

Derecognition

82. **The carrying amount of an item of property, plant, and equipment shall be derecognized:**

(a) **On disposal; or**

(b) **When no future economic benefits or service potential is expected from its use or disposal.**

83. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 43, *Leases* requires otherwise on a sale and leaseback).**

83A. However, an entity that, in the course of its activities, routinely provides items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The amount of consideration from the disposal of such assets shall be recognized as revenue in accordance with IPSAS 47, *Revenue*. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of operations are transferred to inventories.

84. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). The date of disposal of an item of property, plant, and equipment is the date the recipient obtains control of that item in accordance with the requirements, and any enforceable obligations or compliance obligations are satisfied in IPSAS 47. IPSAS 43 applies to disposal by a sale and leaseback.

85. If, under the recognition principle in paragraph 14, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

86. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**

87. The amount of consideration to be included in the surplus or deficit arising from the derecognition of an item of property, plant, and equipment is determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.

Disclosure

88. **The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:**

    (a) **The measurement bases used for determining the gross carrying amount;**

    (b) **The depreciation methods used;**

    (c) **The useful lives or the depreciation rates used;**

    (d) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**

    (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

        (i) **Additions;**

        (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

        (iii) **Acquisitions through public sector combinations;**

        (iv) **Increases or decreases resulting from revaluations under paragraphs 44, 54, and 55 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vii) **Depreciation;**

(viii) **The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and**

(ix) **Other changes.**

89. **The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:**

(a) **The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;**

(b) **The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction; and**

(c) **The amount of contractual commitments for the acquisition of property, plant, and equipment.**

(d) **[Deleted]**

89A. **If not presented separately in the statement of financial performance, the financial statements shall also disclose:**

(a) **The amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit; and**

(b) **The amounts of proceeds and cost included in surplus or deficit in accordance with paragraph 34A that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.**

90. Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management, and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and

(b) Accumulated depreciation at the end of the period.

91. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment, such disclosure may arise from changes in estimates with respect to:

(a) Residual values;

(b) The estimated costs of dismantling, removing, or restoring items of property, plant and equipment;

(c) Useful lives; and

(d) Depreciation methods.

92. **If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed:**

(a) **The effective date of the revaluation;**

(b) **Whether an independent valuer was involved;**

(c) **The methods and significant assumptions applied in estimating the assets' fair values;**

(d) **The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques;**

(e) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;**

(f) **The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and**

(g) **The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.**

93. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph 88(e)(iv)–(vi).

94. Users of financial statements may also find the following information relevant to their needs:

(a) The carrying amount of temporarily idle property, plant, and equipment;

(b) The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use;

(c) The carrying amount of property, plant, and equipment retired from active use and not classified as held for sale in accordance with IPSAS 44; and

(d) When the cost model is used, the fair value of property, plant, and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional Provisions

95. [Deleted]

96. [Deleted]

97. [Deleted]

98. [Deleted]

99. [Deleted]

100. [Deleted]

101. [Deleted]

102. [Deleted]

103. [Deleted]

104. [Deleted]

105. **For entities that have previously applied IPSAS 17 (2001), the requirements of paragraphs 38–40 regarding the initial measurement of an item of property, plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions**.

106. [Deleted]

106A. Paragraph 50 was amended by *Improvements to IPSAS 2014* issued in January 2015. An entity shall apply those amendments to all revaluations recognized in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period.

106B. *Improvements to IPSAS, 2021*, issued in January 2022 amended paragraphs 31 and 89 and added paragraphs 34A and 89A. An entity shall apply those amendments retrospectively, but only to items of property, plant, and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of net assets/equity (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Effective Date

107. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

107A. **Paragraph 83A was added and paragraph 84 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact and at the same time apply the related amendment to IPSAS 2, *Cash Flow Statements*.**

107B. **Paragraph 8 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply that amendment prospectively for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged if an entity also applies the amendments to paragraphs 12, 13, 29, 40, 57, 59, 62, 62A, 62B, 63, 66, and 101A of IPSAS 16 at the same time. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact.**

107C. **Paragraphs 5 and 7 were amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in October 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 6 and 42A of IPSAS 5, the amendments to paragraphs 25–27 and 85B of IPSAS 13, the amendments to paragraphs 2 and 125A of IPSAS 29 and the amendments to paragraphs 6 and 132A of IPSAS 31.**

107D. **Paragraphs 79, 81, 83, 88 and 93 were amended by *Improvements to IPSAS 2011* issued in October 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2013, it shall disclose that fact.**

107E. **Paragraphs 17, 50 and 72 were amended and paragraphs 78A and 106A added by *Improvements to IPSAS 2014* issued in January 2015. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2015. Earlier application is**

encouraged. If an entity applies the amendments for a period beginning before January 1, 2015, it shall disclose that fact.

107F. **Paragraphs 95, 96, 97, 98, 99, 100, 101, 102, 103, 104 and 108 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

107G. **Paragraphs 5, 20 and 52 were amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

107H. **Paragraphs 6, 13 and 52 were amended and paragraph 36A added by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact. An entity shall apply those amendments retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraph 107I.**

107I. **In the reporting period when the amendments to IPSAS 17 and IPSAS 27 from part IV of *Improvements to IPSAS 2015* is first applied an entity need not disclose the quantitative information required by paragraph 33(f) of IPSAS 3 for the current period. However, an entity shall present the quantitative information required by paragraph 33(f) of IPSAS 3 for each prior period presented.**

107J. **An entity may elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented in the financial statements for the reporting period in which the entity first applies the amendments to IPSAS 17 and IPSAS 27 from part IV of *Improvements to IPSAS 2015* and use that fair value as its deemed cost at that date. Any differences between the previous carrying amount and fair value shall be recognized in opening accumulated surpluses/deficits at the beginning of the earliest period presented.**

107K. **Paragraphs 3 and 4 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

107L. ***Impairment of Revalued Assets* (Amendments to IPSAS 21 and 26) added paragraph 51A. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies that amendment for a period beginning before January 1, 2018, it shall disclose that fact.**

107M. **Paragraph 31 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

107N. **Paragraphs 60 and 88 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

107O. **Paragraph 106 was amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

107P. **Paragraph 5 was amended and paragraph 106 was deleted by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

107Q. **Paragraphs 31 and 89 were amended and paragraphs 34A, 89A and 106B were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

107R. **Paragraphs 8, 19, 60, 83, 84 were amended and paragraphs 7 and 41 were deleted by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

107S. **Paragraphs 6, 71, 83A, 88 and 94 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

107T. **Paragraphs 83A, 84, and 87 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

108. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Withdrawal of IPSAS 17 (2001)

109. This Standard supersedes IPSAS 17, *Property, Plant, and Equipment*, issued in 2001.

Appendix

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 17.

Revision of IPSAS 17 as a result of the IASB's General Improvements Project 2003

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IAS)[2] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 17, issued in December 2001, was based on IAS 16 (Revised 1998), *Property, Plant, and Equipment*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[3] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 16 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made with the exception noted in paragraph BC6. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's Comprehensive Subscription Service can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, this Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 16, *Property, Plant and Equipment*, defines recoverable amount as "the higher of an asset's net selling price and its value in use." IPSAS 17 defines recoverable amount as "the higher of a cash-generating asset's fair value less costs to sell and its value in use." The definition in IPSAS 17 is the same as in IPSAS 26, *Impairment of Cash-Generating Assets*, but not IAS 16. The IPSASB is of the view that the definition in IPSAS 17 is appropriate because:

(a) IPSAS 17 requires an entity to determine the recoverable service amount in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets.*

(b) IPSAS 21 requires an entity to determine the recoverable amount in accordance with IPSAS 26.

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2 The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

3 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

BC7. IAS 16 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 17 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 17 as a result of the IASB's *Improvements to IFRS* issued in 2008

BC8. The IPSASB reviewed the revisions to IAS 16 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 17 as a result of IASB's *Improvements to IFRS and Narrow Scope Amendments* issued in May 2012, December 2013 and May 2014

BC9. The IPSASB reviewed the revisions to IAS 16 included in the *Improvements to IFRS and Clarification of Acceptable Methods of Depreciation and Amortisation* issued by the IASB in May 2012, December 2013 and May 2014 and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 17 as a result of Part III of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC10. Government Finance Statistics (GFS) reporting guidelines use the term "weapons systems" to comprise items that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. The IPSASB concluded that replacing the IPSAS term "specialist military equipment" with the GFS term "weapons systems" and including a description would clarify *The Applicability of IPSAS* 17, Property, Plant, and Equipment, while increasing consistency with GFS reporting guidelines.

BC11. A respondent suggested that the proposed definition of weapons systems may be unnecessarily narrow and, therefore, may exclude some assets, such as specialist military vehicles that do not carry weapons or directly provide defense capability. The IPSASB is of the view that the definition of weapons systems includes such vehicles with or without weapons, provided that they fulfill their specialist function.

Revision of IPSAS 17 as a result of IASB's Narrow Scope Amendments issued in June 2014

BC12. The IPSASB reviewed the revisions to IAS 16 included in the narrow scope amendments titled *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) issued by the IASB in June 2014 and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 17 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC13. 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 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.

Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)

BC14. As a consequence of amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, the IPSASB decided to add paragraph 51A to clarify that the recognition of impairment losses and reversals of impairment losses of an asset, or group of assets, do not give rise to the need to revalue the entire class of assets to which that asset, or group of assets, belongs.

Revision of IPSAS 17 as a result of *Improvements to IPSAS*, 2018

BC15. Paragraph 106 includes transitional provisions for those entities that were already taking advantage of the five-year transitional period previously included in IPSAS 17. These provisions have been restated following the deletion of other transitional provisions (to which paragraph 106 previously referred) as a result of the issuance of IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*.

Revision of IPSAS 17 as a result of *Improvements to IPSAS, 2019*

BC16. Paragraphs 5 and 106 include transitional provisions for entities to recognize property, plant, and equipment over a period of five years. These transitional provisions have been deleted as a result of the issuance of IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS).*

Revision of IPSAS 17 as a result of *Improvements to IPSAS*, *2021*

BC17. The IPSASB reviewed the revisions to IAS 16, *Property, Plant and Equipment*, included in *Property, Plant and Equipment*—Proceeds before Intended Use (Amendments to IAS 16) 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.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 17.

Frequency of Revaluation of Property, Plant, and Equipment

IG1. Paragraph 44 of IPSAS 17 requires entities that adopt the revaluation model to measure assets at a revaluated amount that does not differ significantly from that which would be determined using fair value at the reporting date. Paragraph 49 of IPSAS 17 specifies that the frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that adopt the revaluation model to determine whether carrying amounts differ materially from the fair value as at reporting date.

IG2. An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's fair value and revalues the asset to that amount.

IG3. In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

(a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;

(b) Where a market exists for the assets of the entity, market values are different from their carrying amounts;

(c) During the period, a price index relevant to the asset has undergone a material change;

Internal sources of information

(d) Evidence is available of obsolescence or physical damage of an asset;

(e) Significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favourable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and

(f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

IG4. The list in paragraph IG3 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current fair value as at the reporting date.

Illustrative Example

Disclosures

IE1. The Department of the Interior is a public sector entity that controls a wide range of property, plant, and equipment, and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Statement of Financial Position for the year ended 31 December 20X1 and illustrate the principal disclosures required in accordance with this Standard.

Notes

1. **Land**

(a) Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the Office of the National Valuer, an independent valuer.

(b) Restrictions on Titles:

Five hundred hectares of land (carried at 62,500 currency units) is designated as national interest land and may not be sold without the approval of the legislature. Two hundred hectares (carried at 25,000 currency units) of the national interest land and a further two thousand hectares (carried at 250,000 currency units) of other land are subject to title claims by former owners in an international court of human rights and the Court has ordered that the land may not be disposed of until the claim is decided; the Department recognizes the jurisdiction of the Court to hear these cases.

2. **Buildings**

(a) Buildings consist of office buildings and industrial facilities at various locations.

(b) Buildings are initially recognized at cost, but are subject to revaluation to fair value on an ongoing basis. The Office of the National Valuer determines fair value on a rolling basis within a short period of time. Revaluations are kept up to date.

(c) Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.

(d) The Department has entered into five contracts for the construction of new buildings; total contract costs are 250,000 currency units.

3. **Machinery**

(a) Machinery is measured at cost less depreciation.

(b) Depreciation is calculated on a straight-line basis over the useful life of the machine.

(c) The machinery has various useful lives:

Tractors: 10 years

Washing Equipment: 4 years

Cranes: 15 years

(d) The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings – the contracted cost is 100,000 currency units.

4. **Furniture and Fixtures**

(a) Furniture and fixtures are measured at cost less depreciation.

(b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.

(c) All items within this class have a useful life of five years.

Reconciliations

(in '000 of currency units)

	Land		**Buildings**		**Machinery**		**Furniture and Fixtures**	
Reporting Period	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	–	–	250	100	120	200	20	100
Disposals	–	–	150	40	60	80	20	–
Depreciation (As per Statement of Financial Performance)	–	–	160	180	145	135	50	50
Revaluations (net)	250	225	–30	–50	–	–	–	–
Closing Balance (As per Statement of Financial Position)	2,500	2,250	2,000	2,090	1,000	1,085	150	200
Sum of Revaluation Surpluses (Paragraph 92(f))	750	500	250	250	–	–	–	–
Sum of Revaluation Deficits (Paragraph 92(g))	25	25	380	350	–	–	–	–
Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	–	–	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

COMPARISON WITH IAS 16

IPSAS 17 is drawn primarily from IAS 16 (2003), *Property, Plant and Equipment* and includes amendments made to IAS 16 as part of the *Improvements to IFRS* issued in May 2008. At the time of initially issuing this Standard, the IPSASB had not considered the applicability of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* to public sector entities; therefore, IPSAS 17 did not reflect amendments made to IAS 16 consequent upon the issue of IFRS 5. The IPSASB has subsequently issued IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*. Therefore, all amendments made to IAS 16 from the issuance of IFRS 5 are now reflected in IPSAS 17. The main differences between IPSAS 17 and IAS 16 (2003) are as follows:

- IPSAS 17 does not require or prohibit the recognition of heritage assets. An entity that recognizes heritage assets is required to comply with the disclosure requirements of this Standard with respect to those heritage assets that have been recognized and may, but is not required to, comply with other requirements of this Standard in respect of those heritage assets. IAS 16 does not have a similar exclusion.
- IAS 16 requires items of property, plant, and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date it is acquired. IAS 16 requires, where an enterprise adopts the revaluation model and carries items of property, plant, and equipment at revalued amounts, the equivalent historical cost amounts to be disclosed. This requirement is not included in IPSAS 17.
- Under IAS 16, revaluation increases and decreases may only be matched on an individual item basis. Under IPSAS 17, revaluation increases and decreases are offset on a class of assets basis.
- IPSAS 17 contains definitions of “impairment loss of a non-cash-generating asset” and “recoverable service amount.” IAS 16 does not contain these definitions.
- IPSAS 17 uses different terminology, in certain instances, from IAS 16. The most significant examples are the use of the terms “statement of financial performance,” and “net assets/equity” in IPSAS 17. The equivalent terms in IAS 16 are “income statement” and “equity.”
- IPSAS 17 does not use the term “income,” which in IAS 16 has a broader meaning than the term “revenue.”
- IPSAS 17 contains Implementation Guidance on the frequency of revaluation of property, plant, and equipment. IAS 16 does not contain similar guidance.

IPSAS 18—SEGMENT REPORTING

Acknowledgment

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History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 18, *Segment Reporting* was issued in June 2002.

Since then, IPSAS 18 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 17, *Property, Plant, and Equipment* (issued December 2006)
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2006)

Table of Amended Paragraphs in IPSAS 18

Paragraph Affected	How Affected	Affected By
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
16	Amended	*The Applicability of IPSAS* April 2016
24	Amended	*The Applicability of IPSAS* April 2016
27[1]	Amended	IPSAS 3 December 2006 IPSAS 37 January 2015 IPSAS 47 May 2023
32	Amended	IPSAS 37 January 2015
33	Amended	IPSAS 43 January 2022
34	Amended	IPSAS 40 January 2017
35	Amended	IPSAS 43 January 2022

[1] Sub-paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
37	Amended	IPSAS 17 December 2006 IPSAS 40 January 2017 IPSAS 45 May 2023
38	Amended	*Improvements to IPSAS* April 2016 *The Applicability of IPSAS* April 2016
39	Amended	IPSAS 47 May 2023
41	Amended	IPSAS 35 January 2015 *The Applicability of IPSAS* April 2016
57	Amended	IPSAS 3 December 2006
69	Amended	IPSAS 3 December 2006 *Improvements to IPSAS* April 2016
70	Amended	IPSAS 3 December 2006
76A	New	IPSAS 33 January 2015
76B	New	IPSAS 37 January 2015
76C	New	*Improvements to IPSAS* April 2016
76D	New	*The Applicability of IPSAS* April 2016
76E	New	IPSAS 40 January 2017
76F	New	IPSAS 43 January 2022
76G	New	IPSAS 45 May 2023
76H	New	IPSAS 47 May 2023
77	Amended	IPSAS 33 January 2015
IE	Amended	IPSAS 3 December 2006 *Improvements to IPSAS* November 2010

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CONTENTS

International Public Sector Accounting Standard 18, *Segment Reporting*, is set out in the objective and paragraphs 1–77. All the paragraphs have equal authority. IPSAS 18 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will:

a) Help users of the financial statements to better understand the entity's past performance, and to identify the resources allocated to support the major activities of the entity; and
b) Enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the presentation of segment information.**

2. [Deleted]

3. [Deleted]

4. **This Standard shall be applied in complete sets of published financial statements that comply with IPSAS.**

5. A complete set of financial statements includes a statement of financial position, statement of financial performance, cash flow statement, a statement showing changes in net assets/equity, and notes, as provided in IPSAS 1.

6. **If both consolidated financial statements of a government or other economic entity and the separate financial statements of the parent entity are presented together, segment information need be presented only on the basis of the consolidated financial statements.**

7. In some jurisdictions, the consolidated financial statements of the government or other economic entity and the separate financial statements of the controlling entity are compiled and presented together in a single report. Where this occurs, the report that contains the government's or other controlling entity's consolidated financial statements needs to present segment information only for the consolidated financial statements.

Definitions

8. [Deleted]

9. **The following term is used in this Standard with the meaning specified:**

   A <u>segment</u> is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives, and (b) making decisions about the future allocation of resources.

   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.

10. Governments and their agencies control significant public resources, and operate to provide a wide variety of goods and services to their constituents in differing geographical regions and in regions with differing socio-economic characteristics. These entities are expected, and in some cases formally required, to use those resources efficiently and effectively to achieve the entity's objectives. Entity-wide and consolidated financial statements provide an overview of (a) the assets controlled and liabilities incurred by the reporting entity, (b) the cost of services provided, and (c) the taxation revenue, budget allocations, and cost recoveries generated to fund the provision of those services. However, this aggregate information does not provide information

about the specific operational objectives and major activities of the reporting entity and the resources devoted to, and costs of, those objectives and activities.

11. In most cases, the activities of the entity are so broad, and encompass so wide a range of different geographical regions, or regions with different socio-economic characteristics, that it is necessary to report disaggregated financial and non-financial information about particular segments of the entity to provide relevant information for accountability and decision-making purposes.

Reporting by Segments

12. **An entity shall identify its separate segments in accordance with the requirements of paragraph 9 of this Standard, and shall present information about those segments as required by paragraphs 51–75 of this Standard.**

13. Under this Standard, public sector entities will identify as separate segments each distinguishable activity or group of activities for which financial information should be reported, for purposes of (a) evaluating the past performance of the entity in achieving its objectives, and (b) making decisions about the allocation of resources by the entity. In addition to disclosure of the information required by paragraphs 51–75 of this Standard, entities are also encouraged to disclose additional information about reported segments as identified by this Standard or as considered necessary for accountability and decision-making purposes.

Reporting Structures

14. In most cases, the major classifications of activities identified in budget documentation will reflect the segments for which information is reported to the governing body and the most senior manager of the entity. In most cases, the segments reported to the governing body and senior manager will also reflect the segments reported in the financial statements. This is because the governing board and senior manager will require information about segments to enable them (a) to discharge their managerial responsibilities and to evaluate the performance of the entity in achieving its objectives in the past, and (b) to make decisions about the allocation of resources by the entity in the future.

15. Determining the activities that should be grouped as separate segments and reported in the financial statements for accountability and decision-making purposes involves judgment. In making that judgment, preparers of the financial statements will consider such matters as:

    (a) The objective of reporting financial information by segment as identified in paragraph 9 above;

    (b) The expectations of members of the community and their elected or appointed representatives regarding the key activities of the entity;

    (c) The qualitative characteristics of financial reporting as identified in the *Conceptual Framework for General Purpose Financial Reporting* by Public Sector Entities; and

    (d) Whether a particular segment structure reflects the basis on which the governing body and senior manager require financial information to enable them to assess the past performance of the entity in achieving its objectives, and to make decisions about the allocation of resources to achieve entity objectives in the future.

16. At the whole-of-government level, financial information is often aggregated and reported in a manner that reflects, for example:

    (a) Major economic classifications of activities undertaken by general government, such as health, education, defense, and welfare (these may reflect the Government Finance Statistics (GFS) functional classifications of government), and major trading activities undertaken by commercial public sector entities, such as state-owned power stations, banks, and insurance entities; or

(b) Portfolio responsibilities of individual ministers or members of executive government. These often, but not always, reflect the economic classifications in (a) above – differences may occur because portfolio responsibilities may aggregate more than one of the economic classifications or cut across those classifications.

Service Segments and Geographical Segments

17. The types of segments reported to the governing body and senior manager of an entity are frequently referred to as service segments or geographical segments. These terms are used in this Standard with the following meanings:

(a) A service segment refers to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity; and

(b) A geographical segment is a distinguishable component of an entity that is engaged in providing outputs or achieving particular operating objectives within a particular geographical area.

18. Government departments and agencies are usually managed along service lines, because this reflects the way in which (a) major outputs are identified, (b) their achievements monitored, and (c) their resource needs identified and budgeted. An example of an entity that reports internally on the basis of service lines or service segments is an education department whose organizational structure and internal reporting system reflects primary, secondary, and tertiary educational activities and outputs as separate segments. This basis of segmentation may be adopted internally, because the skills and facilities necessary to deliver the desired outputs and outcomes for each of these broad educational activities are perceived to be different. In addition, key financial decisions faced by management include determination of the resources to allocate to each of those outputs or activities. In these cases, it is likely that reporting externally on the basis of service segments will also satisfy the requirements of this Standard.

19. Factors that will be considered in determining whether outputs (goods and services) are related and should be grouped as segments for financial reporting purposes include:

(a) The primary operating objectives of the entity and the goods, services, and activities that relate to the achievement of each of those objectives, and whether resources are allocated and budgeted on the basis of groups of goods and services;

(b) The nature of the goods or services provided or activities undertaken;

(c) The nature of the production process and/or service delivery and distribution process or mechanism;

(d) The type of customer or consumer for the goods or services;

(e) Whether this reflects the way in which the entity is managed and financial information is reported to senior management and the governing board; and

(f) If applicable, the nature of the regulatory environment, (for example, department or statutory authority) or sector of government (for example finance sector, public utilities, or general government).

20. An entity may be organized and report internally to the governing body and the senior manager on a regional basis – whether within or across national, state, local, or other jurisdictional boundaries. Where this occurs, the internal reporting system reflects a geographical segment structure.

21. A geographical segment structure may be adopted where, for example, the organizational structure and internal reporting system of an education department is structured on the basis of regional educational outcomes, because the key performance assessments and resource allocation decisions to be made by the governing body and senior manager are determined by reference to regional achievements and regional

needs. This structure may have been adopted to preserve regional autonomy of educational needs and delivery of education services, or because operating conditions or educational objectives are substantially different from one region to another. It may also have been adopted simply because management believes that an organizational structure based on regional devolution of responsibility better serves the objectives of the organization. In these cases, resource allocation decisions are initially made, and subsequently monitored, by the governing body and the senior manager on a regional basis. Detailed decisions about the allocation of resources to particular functional activities within a geographical region are then made by regional management, consistent with educational needs within that region. In these cases, it is likely that reporting information by geographical segments in the financial statements will also satisfy the requirements of this Standard.

22. Factors that will be considered in determining whether financial information should be reported on a geographical basis include:

(a) Similarity of economic, social, and political conditions in different regions;

(b) Relationships between the primary objectives of the entity and the different regions;

(c) Whether service delivery characteristics and operating conditions differ in different regions;

(d) Whether this reflects the way in which the entity is managed and financial information is reported to senior managers and the governing board; and

(e) Special needs, skills, or risks associated with operations in a particular area.

Multiple Segmentation

23. In some cases, an entity may report to the governing body and senior manager segment revenue, expense, assets, and liabilities on the basis of more than one segment structure, for example by both service and geographical segments. Reporting on the basis of both service segments and geographical segments in the external financial statements often will provide useful information if the achievement of an entity's objectives is strongly affected both by the different products and services it provides and the different geographical areas to which those goods and services are provided. Similarly, at the whole-of-government level, a government may adopt a basis of disclosure that (a) reflects general government, public finance sector and trading sector disclosures, and (b) supplements the general government sector analysis with, for example, segment disclosures of major purpose or functional sub-categories. In these cases, the segments may be reported separately or as a matrix. In addition, a primary and secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments.

Reporting Structures not Appropriate

24. As noted above, in most cases the segments for which information is reported internally to the governing body and the most senior manager of the entity, for the purpose of evaluating the entity's past performance and for making decisions about the future allocation of resources, will reflect those identified in budget documentation and will also be adopted for external reporting purposes in accordance with the requirements of this Standard. However, in some cases an entity's internal reporting to the governing body and the senior manager may be structured to aggregate and report on a basis that distinguishes revenues, expenses, assets, and liabilities related to budget-dependent activities from those of trading activities, or which distinguishes budget-dependent entities from commercial public sector entities. Reporting segment information in the financial statements on the basis of only these segments is unlikely to meet the objectives specified for this Standard. This is because these segments are unlikely to provide information that is relevant to users about, for example, the performance of the entity in achieving its major operating objectives. IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, includes requirements for

governments that elect to disclose financial information about the general government sector (GGS) as defined in statistical bases of reporting.

25. In some cases, the disaggregated financial information reported to the governing body and the senior manager may not report expenses, revenues, assets, and liabilities by service segment, geographical segment, or by reference to other activities. Such reports may be constructed to reflect only expenditures by nature (for example, wages, rent, supplies, and capital acquisitions) on a line item basis that is consistent with the budget appropriation or other funding or expenditure authorization model applicable to the entity. This may occur where the purpose of financial reporting to the governing body and senior management is to evidence compliance with spending mandates rather than for purposes of (a) evaluating the past performance of the entity's major activities in achieving their objectives, and (b) making decisions about the future allocation of resources. When internal reporting to the governing body and senior manager is structured to report only compliance information, reporting externally on the same basis as the internal reporting to the governing body and senior manager will not meet the requirement of this Standard.

26. When an entity's internal reporting structure does not reflect the requirements of this Standard, for external reporting purposes the entity will need to identify segments that satisfy the definition of a segment in paragraph 9 and disclose the information required by paragraphs 51–75.

Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies

27. **The following additional terms are used in this Standard with the meanings specified:**

<u>Segment accounting policies</u> are the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.

<u>Segment assets</u> are those operating assets that are employed by a segment in its operating activities, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If a segment's segment revenue includes interest or dividend revenue, its segment assets include the related receivables, loans, investments, or other revenue-producing assets.

Segment assets do not include income tax or income tax-equivalent assets that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.

Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue.

Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.

<u>Segment expense</u> is an expense resulting from the operating activities of a segment that is directly attributable to the segment, and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity. Segment expense does not include:

(a) **Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;**

(b) **Losses on sales of investments or losses on extinguishment of debt, unless the segment's operations are primarily of a financial nature;**

(c) **An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method;**

(d) **Income tax or income tax-equivalent expense that is recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents; or**

(e) **General administrative expenses, head office expenses, and other expenses that arise at the entity level and relate to the entity as a whole. However, costs are sometimes incurred at the entity level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.**

For a segment's operations that are primarily of a financial nature, interest revenue and interest expense may be reported as a single net amount for segment reporting purposes only if those items are netted in the consolidated or entity financial statements.

Segment liabilities are those operating liabilities that result from the operating activities of a segment, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If a segment's segment expense includes interest expense, its segment liabilities include the related interest-bearing liabilities.

Segment liabilities do not include income tax or income tax equivalent liabilities that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.

Segment revenue is revenue reported in the entity's statement of financial performance that is directly attributable to a segment, and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees, or the provision of goods or services to other parties or from transactions with other segments of the same entity. Segment revenue does not include:

(a) **Interest or dividend revenue, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or**

(b) **Gains on sales of investments or gains on extinguishment of debt, unless the segment's operations are primarily of a financial nature.**

Segment revenue includes an entity's share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, only if those items are included in consolidated or total entity revenue.

Attributing Items to Segments

28. The definitions of segment revenue, segment expense, segment assets, and segment liabilities include amounts of such items that are directly attributable to a segment, and amounts of such items that can be allocated to a segment on a reasonable basis.

29. An entity looks to its internal financial reporting system as the starting point for identifying those items that can be directly attributed, or reasonably allocated, to segments. That is, where segments used for internal reporting purposes are adopted, or form the basis of segments adopted, for general purpose financial statements, there is a presumption that amounts that have been identified with segments for internal financial reporting purposes are directly attributable or reasonably allocable to segments for the purpose of measuring the segment revenue, segment expense, segment assets, and segment liabilities.

30. In some cases, a revenue, expense, asset, or liability may have been allocated to segments for internal financial reporting purposes on a basis that is understood by entity management, but that could be deemed subjective, arbitrary, or difficult to understand by external users of financial statements. Such an allocation would not constitute a reasonable basis under the definitions of segment revenue, segment expense, segment assets, and segment liabilities in this Standard. Conversely, an entity may choose not to allocate some item of revenue, expense, asset, or liability for internal financial reporting purposes, even though a reasonable basis for doing so exists. Such an item is allocated pursuant to the definitions of segment revenue, segment expense, segment assets, and segment liabilities in this Standard.

31. Public sector entities can generally identify (a) the costs of providing certain groups of goods and services or of undertaking certain activities, and (b) the assets that are necessary to facilitate those activities. This information is needed for planning and control purposes. However, in many cases the operations of government agencies and other public sector entities are funded by "block" appropriations, or appropriations on a "line item" basis reflecting the nature of the major classes of expenses or expenditures. These "block" or "line item" appropriations may not be related to specific service lines, functional activities, or geographical regions. In some cases, it may not be possible to directly attribute revenue to a segment or to allocate it to a segment on a reasonable basis. Similarly, some assets, expenses, and liabilities may not be able to be directly attributed, or allocated on a reasonable basis, to individual segments, because they support a wide range of service delivery activities across a number of segments or are directly related to general administration activities that are not identified as a separate segment. The unattributed or unallocated revenue, expense, assets, and liabilities would be reported as an unallocated amount in reconciling the segment disclosures to the aggregate entity revenue as required by paragraph 64 of this Standard.

32. Governments and their agencies may enter into arrangements with private sector entities for the delivery of goods and services, or to conduct other activities. In some jurisdictions, these arrangements take the form of a joint venture or an investment in an associate that is accounted for by the equity method of accounting. Where this is the case, segment revenue will include the segment's share of the equity accounted net surplus (deficit), where the equity accounted surplus (deficit) is included in entity revenue, and it can be directly attributed or reliably allocated to the segment on a reasonable basis.

Segment Assets, Liabilities, Revenue, and Expense

33. Examples of segment assets include current assets that are used in the operating activities of the segment: property, plant, and equipment; right-of-use assets; and intangible assets. If a particular item of depreciation or amortization is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general entity or head office purposes. For example:

    (a) The office of the central administration and policy development unit of a department of education is not included in segments reflecting the delivery of primary, secondary and tertiary educational services; or

    (b) The parliamentary or other general assembly building is not included in segments reflecting major functional activities such as education, health, and defense when reporting at the whole-of-government level.

    Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

34. The consolidated financial statements of a government or other entity may encompass operations acquired in a public sector combination that gives rise to purchased goodwill (guidance on accounting for the acquisition of an operation is included in IPSAS 40, *Public Sector Combinations*). In these cases, segment assets will include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and segment expense includes related impairment of goodwill.

35. of the community for the provision of partially subsidized goods and services in the future, product warranty provisions arising from any commercial activities of the entity, and other claims relating to the provision of goods and services. Segment liabilities do not include borrowings, liabilities related to right-of-use assets, and other liabilities that are incurred for financing rather than operating purposes. If interest expense is included in segment expense, the related interest-bearing liability is included in segment liabilities.

36. The liabilities of segments whose operations are not primarily of a financial nature do not include borrowings and similar liabilities, because segment revenues and expenses do not include financing revenues and expenses. Further, because debt is often issued at the head office level or by a central borrowing authority on an entity-wide or government-wide basis, it is often not possible to directly attribute, or reasonably allocate, the interest-bearing liability to the segment. However, if the financing activities of the entity are identified as a separate segment, as may occur at the whole-of-government level, expenses of the "finance" segment will include interest expense, and the related interest-bearing liabilities will be included in segment liabilities.

37. IPSAS 40 may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an operation acquired in an acquisition. Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an operation acquired in an acquisition, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's separate or the controlled entity's individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the current value model in IPSAS 45, *Property, Plant, and Equipment*, measurements of segment assets reflect those revaluations.

38. In some jurisdictions, a government or government entity may control a commercial public sector entity that is subject to income tax or income tax equivalents. These entities may be required to apply accounting standards such as IAS 12, *Income Taxes*, which prescribe the accounting treatment of income taxes or income tax equivalents. Such standards may require the recognition of income tax assets and liabilities in respect of income tax expenses, or income tax-equivalent expenses, which are recognized in the current period and are recoverable or repayable in future periods. These assets and liabilities are not included in segment assets or segment liabilities because they arise as a result of all the activities of the entity as a whole and the tax arrangements in place in respect of the entity. However, assets representing taxation revenue receivable that is controlled by a taxing authority will be included in segment assets of the authority if they can be directly attributed to that segment or allocated to it on a reliable[2] basis.

39. Some guidance for cost allocation can be found in other IPSAS and may be useful in attributing and allocating costs to segments. For example, IPSAS 12, *Inventories*, provides guidance for attributing and allocating costs to inventories.

40. IPSAS 2, *Cash Flow Statements* provides guidance on whether bank overdrafts should be included as a component of cash or should be reported as borrowings.

41. The financial statements for the whole-of-government, and certain other controlling entities, will require the consolidation of a number of separate entities such as departments, agencies, and commercial public sector entities. In preparing these consolidated financial statements, transactions and balances between controlled entities will be eliminated in accordance with IPSAS 35, *Consolidated Financial Statements.* However, segment revenue, segment expense, segment assets, and segment liabilities are determined before balances and transactions between entities within the economic entity are eliminated as part of the

[2] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

consolidation process, except to the extent that such intra-economic entity balances and transactions are between entities within a single segment.

42. While the accounting policies used in preparing and presenting the financial statements of the entity as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as the method of pricing inter-segment transfers, and the basis for allocating revenues and expenses to segments.

Segment Accounting Policies

43. **Segment information shall be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.**

44. There is a presumption that the accounting policies that the governing body and management of an entity have chosen to use in preparing the consolidated or entity-wide financial statements are those that the governing body and management believe are the most appropriate for external reporting purposes. Since the purpose of segment information is to help users of financial statements better understand and make more informed judgments about the entity as a whole, this Standard requires the use, in preparing segment information, of the accounting policies that the governing body and management have chosen for preparation of the consolidated or entity-wide financial statements. That does not mean, however, that the consolidated or entity accounting policies are to be applied to segments as if the segments were separate reporting entities. A detailed calculation done in applying a particular accounting policy at the entity-wide level may be allocated to segments if there is a reasonable basis for doing so. Employee entitlement calculations, for example, are often done for an entity as a whole, but the entity-wide figures may be allocated to segments based on salary and demographic data for the segments.

45. As noted in paragraph 42, accounting policies that deal with entity-only issues such as inter-segment pricing may need to be developed. IPSAS 1 requires disclosure of accounting policies necessary to understand the financial statements. Consistent with those requirements, segment-specific policies may need to be disclosed.

46. This Standard permits the disclosure of additional segment information that is prepared on a basis other than the accounting policies adopted for the consolidated or entity financial statements provided that:

    (a) The information is relevant for performance assessment and decision-making purposes; and

    (b) The basis of measurement for this additional information is clearly described.

Joint Assets

47. **Assets that are jointly used by two or more segments shall be allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments.**

48. The way in which asset, liability, revenue, and expense items are allocated to segments depends on such factors as the nature of those items, the activities conducted by the segment, and the relative autonomy of that segment. It is not possible or appropriate to specify a single basis of allocation that should be adopted by all entities. Nor is it appropriate to force allocation of entity asset, liability, revenue, and expense items that relate jointly to two or more segments, if the only basis for making those allocations is arbitrary or difficult to understand. At the same time, the definitions of segment revenue, segment expense, segment assets, and segment liabilities are interrelated, and the resulting allocations should be consistent. Therefore, jointly used assets are allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments. For example, an asset is included in segment assets if, and only if, the related depreciation or amortization is included in measuring segment expense.

Newly Identified Segments

49. **If a segment is identified as a segment for the first time in the current period, prior period segment data that is presented for comparative purposes shall be restated to reflect the newly reported segment as a separate segment, unless it is impracticable to do so.**

50. New segments may be reported in financial statements in differing circumstances. For example, an entity may change its internal reporting structure from a service segment structure to a geographical segment structure, and management may consider it appropriate that this segment structure also be adopted for external reporting purposes. An entity may also undertake significant new or additional activities, or increase the extent to which an activity previously operating as an internal support service provides services to external parties. In these cases, new segments may be reported for the first time in the general purpose financial statements. Where this occurs, this Standard requires that prior period comparative data should be restated to reflect the current segment structure where practicable.

Disclosure

51. **The disclosure requirements in paragraphs 52–75 shall be applied to each segment.**

52. **An entity shall disclose segment revenue and segment expense for each segment. Segment revenue from budget appropriation or similar allocation, segment revenue from other external sources, and segment revenue from transactions with other segments shall be separately reported.**

53. **An entity shall disclose the total carrying amount of segment assets for each segment.**

54. **An entity shall disclose the total carrying amount of segment liabilities for each segment.**

55. **An entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment.**

56. An entity is encouraged, but not required, to disclose the nature and amount of any items of segment revenue and segment expense that are of such size, nature, or incidence that their disclosure is relevant to explain the performance of each segment for the period.

57. IPSAS 1 requires that when items of revenue or expense are material, their nature and amount of such items are disclosed separately. IPSAS 1 identifies a number of examples of such items, including write-downs of inventories and property, plant, and equipment; provisions for restructurings; disposals of property, plant, and equipment; privatizations and other disposals of long-term investments; discontinued operations; litigation settlements; and reversals of provisions. The encouragement in paragraph 56 is not intended to change the classification of any such items or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

58. This Standard does not require a segment result to be disclosed. However, if a segment result is calculated and disclosed, it is an operating result that does not include finance charges.

59. An entity is encouraged but not required to disclose segment cash flows consistent with the requirements of IPSAS 2. IPSAS 2 requires that an entity present a cash flow statement that separately reports cash flows from operating, investing, and financing activities. It also requires the disclosure of information about certain cash flows. The disclosure of cash flow information about each segment can be useful in understanding the entity's overall financial position, liquidity, and cash flows.

60. An entity that does not disclose segment cash flows in accordance with IPSAS 2 is encouraged, but not required, to disclose for each reportable segment:

    (a) Segment expense for depreciation and amortization of segment assets;

(b) Other significant non-cash expenses; and

(c) Significant non-cash revenues that are included in segment revenue.

This will enable users to determine the major sources and uses of cash in respect of segment activities for the period.

61. **An entity shall disclose for each segment the aggregate of the entity's share of the net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, if substantially all of those associates' operations are within that single segment.**

62. While a single aggregate amount is disclosed pursuant to the requirements of paragraph 61, each associate, joint venture, or other equity method investment is assessed individually to determine whether its operations are substantially all within a segment.

63. **If an entity's aggregate share of the net surplus (deficit) of associates, joint venture, or other investments accounted for under the equity method is disclosed by segment, the aggregate investments in those associates and joint ventures shall also be disclosed by segment.**

64. **An entity shall present a reconciliation between the information disclosed for segments and the aggregated information in the consolidated or entity financial statements. In presenting the reconciliation, segment revenue shall be reconciled to entity revenue from external sources (including disclosure of the amount of entity revenue from external sources not included in any segment's revenue); segment expense shall be reconciled to a comparable measure of entity expense; segment assets shall be reconciled to entity assets; and segment liabilities shall be reconciled to entity liabilities.**

Additional Segment Information

65. As noted previously, it is anticipated that segments will usually be based on the major goods and services the entity provides, the programs it operates, or the activities it undertakes. This is because information about these segments provides users with relevant information about the performance of the entity in achieving its objectives, and enables the entity to discharge its accountability obligations. However, in some organizations, a geographical or other basis may better reflect the basis on which services are provided and resources allocated within the entity and, therefore, will be adopted for the financial statements.

66. This Standard adopts the view that disclosure of minimum information about both service segments and geographical segments is likely to be useful to users for accountability and decision-making purposes. Therefore, if an entity reports segment information on the basis of:

(a) The major goods and services the entity provides, the programs it operates, the activities it undertakes, or other service segments, it is also encouraged to report the following for each geographical segment that is reported internally to the governing body and the senior manager of the entity:

(i) Segment expense;

(ii) Total carrying amount of segment assets; and

(iii) Total outlay during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets); and

(b) Geographical segments or another basis not encompassed by (a), The entity is encouraged to also report the following segment information for each major service segment that is reported internally to the governing body and the senior manager of the entity:

(i) Segment expense;

(ii) Total carrying amount of segment assets; and

(iii) Total outlay during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets).

Other Disclosure Matters

67. **In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers shall be measured on the basis that they occur. The basis of pricing inter-segment transfers and any change therein shall be disclosed in the financial statements.**

68. **Changes in accounting policies adopted for segment reporting that have a material effect on segment information shall be disclosed, and prior period segment information presented for comparative purposes shall be restated, unless it is impracticable to do so. Such disclosure shall include a description of the nature of the change, the reasons for the change, the fact that comparative information has been restated or that it is impracticable to do so, and the financial effect of the change if it is reasonably determinable. If an entity changes the identification of its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so, then for the purpose of comparison, an entity shall report segment data for both the old and the new bases of segmentation in the year in which it changes the identification of its segments.**

69. Changes in accounting policies adopted by the entity are dealt with in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.* IPSAS 3 requires that changes in accounting policy be made only (a) if required by an IPSAS, or (b) if the change will result in faithfully representative and more relevant information about transactions, other events, and conditions in the financial statements of the entity.

70. Changes in accounting policies applied at the entity level that affect segment information are dealt with in accordance with IPSAS 3. Unless a new IPSAS specifies otherwise, IPSAS 3 requires that:

(a) A change in accounting policy be applied retrospectively, and that prior period information be restated unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change;

(b) If retrospective application is not practicable for all periods presented, the new accounting policy shall be applied retrospectively from the earliest practicable date; and

(c) If it is impracticable to determine the cumulative effect of applying the new accounting policy at the start of the current period, the policy shall be applied prospectively from the earliest date practicable.

71. Some changes in accounting policies relate specifically to segment reporting. Examples include changes in identification of segments and changes in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the segment information reported, but will not change aggregate financial information reported for the entity. To enable users to understand the changes and to assess trends, prior period segment information that is included in the financial statements for comparative purposes is restated, if practicable, to reflect the new accounting policy.

72. Paragraph 67 requires that, for segment reporting purposes, inter-segment transfers should be measured on the basis that the entity actually used to price those transfers. If an entity changes the method that it actually uses to price inter-segment transfers, that is not a change in accounting policy for which prior period segment data should be restated pursuant to paragraph 68. However, paragraph 67 requires disclosure of the change.

73. **If not otherwise disclosed in the financial statements or elsewhere in the annual report, an entity shall indicate:**

(a) **The types of goods and services included in each reported service segment;**

(b) **The composition of each reported geographical segment; and**

(c) **If neither a service nor geographical basis of segmentation is adopted, the nature of the segment and activities encompassed by it.**

Segment Operating Objectives

74. If not otherwise disclosed in the financial statements or elsewhere in the annual report, the entity is encouraged to disclose the broad operating objectives established for each segment at the commencement of the reporting period, and to comment on the extent to which those objectives were achieved.

75. To enable users to assess the performance of an entity in achieving its service delivery objectives, it is necessary to communicate those objectives to users. The disclosure of information about the composition of each segment, the service delivery objectives of those segments, and the extent to which those objectives were achieved will support this assessment. This information will also enable the entity to better discharge its accountability obligations. In many cases, this information will be included in the annual report as part of the report of the governing body or the senior manager. In such cases, disclosure of this information in the financial statements is not necessary.

Effective Date

76. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2003. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2003, it shall disclose that fact.**

76A**. Paragraph 77 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

76B**. IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 27 and 32. An entity shall apply those amendments when it applies IPSAS 37.**

76C**. Paragraph 69 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

76D**. Paragraphs 2 and 3 were deleted and paragraphs 16, 24, 38 and 41 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

76E**. Paragraphs 34 and 37 were amended by IPSAS 40*, Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

76F. **Paragraphs 33 and 35 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

76G. **Paragraph 37 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

76H. **Paragraphs 27 and 39 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

77. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 18.

Revision of IPSAS 18 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC1. 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 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.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 18.

Summary of Required Disclosures

[¶xx] refers to paragraph xx in the Standard.

Disclosures

Total expense by segment [¶52]

Total revenue by segment [¶52]

Revenue from budget appropriation or similar allocation by segment [¶52]

Revenue from external sources (other than appropriation or similar allocation) by segment [¶52]

Revenue from transactions with other segments by segment [¶52]

Carrying amount of segment assets by segment [¶53]

Segment liabilities by segment [¶54]

Cost to acquire assets by segment [¶55]

Share of net surplus (deficit) of [¶61] and investment in [¶63] equity method associates or joint ventures by segment (if substantially all within a single segment)

Reconciliation of revenue, expense, assets and liabilities by segment [¶64]

Other Disclosures

Basis of pricing inter-segment transfers and any changes therein [¶67]

Changes in segment accounting policies [¶68]

Types of products and services in each service segment [¶73]

Composition of each geographical segment [¶73]

If neither a service nor geographical basis of segmentation is adopted, the nature of the segments and activities encompassed by each segment [¶73]

Qualitative Characteristics of Financial Reporting

IG1. [Deleted]

IG2. [Deleted]

Understandability

IG3. [Deleted]

IG4. [Deleted]

Relevance

IG5. [Deleted]

Materiality

IG6. [Deleted]

IG7. [Deleted]

Reliability

IG8. [Deleted]

Faithful Representation

IG9. [Deleted]

Substance Over Form

IG10. [Deleted]

Neutrality

IG11. [Deleted]

Prudence

IG12. [Deleted]

IG13. [Deleted]

Completeness

IG14. [Deleted]

Comparability

IG15. [Deleted]

IG16. [Deleted]

IG17. [Deleted]

IG18. [Deleted]

Constraints on Relevant and Reliable Information

Timeliness

IG19. If there is an undue delay in the reporting of information, it may lose its relevance. To provide information on a timely basis, it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

IG20. The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

IG21. In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Illustrative Example

This example accompanies, but is not part of, IPSAS 18.

The schedule and related note presented in this example illustrate the segment disclosures that this Standard would require for an education authority that is predominantly funded by appropriation, but (a) provides some educational services on a commercial basis to the employees of major corporations, and (b) has joined with a commercial venture to establish a private education foundation that operates on a commercial basis. The Authority has significant influence over, but does not control, that foundation. For illustrative purposes, the example presents comparative data for two years. Segment data is required for each year for which a complete set of financial statements is presented.

Schedule A—Information about Segments

(in millions of currency units)

	Primary/ Secondary		**Tertiary**		**Special Services**		**Other Services**		**Eliminations**		**Consolidated**	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
SEGMENT REVENUE												
Appropriation	48	40	22	23	10	10	7	7				
Fees from external sources	5	4	-	-	9	6	-	-				
Inter-segment transfers	10	6	6	7	2	4	2	2				
Total Segment Revenue	63	50	28	30	21	20	9	9	20	19	101	90
SEGMENT EXPENSE												
Salaries and wages	(39)	(31)	(13)	(13)	(13)	(13)	(2)	(2)				
Depreciation	(9)	(7)	(5)	(7)	(5)	(3)	(1)	(1)				
Other expenses	(12)	(11)	(10)	(9)	(5)	(5)	(2)	(2)				
Total Segment Expenses	(60)	(49)	(28)	(29)	(23)	(21)	(5)	(5)	20	19	(96)	(85)
Unallocated central expenses											(7)	(9)
Deficit from Operating Activities											(2)	(4)
Interest expense											(4)	(3)
Interest revenue											2	3

	Primary/ Secondary		Tertiary		Special Services		Other Services		Eliminations		Consolidated	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
Share of net surpluses of associates							8	7			8	7
Surplus for the period											4	3
OTHER INFORMATION												
Segment assets	54	50	34	30	10	10	10	9			108	99
Investment in associates (equity method)							32	26			32	26
Unallocated central assets											35	30
Consolidated Total Assets											175	155
Segment liabilities	25	15	8	11	8	8	1	1			42	35
Unallocated central liabilities											40	55
Consolidated Total Liabilities											82	90
Capital expenditure	13	10	9	5	4	0	2	3				
Non-cash expense excluding depreciation	(8)	(2)	(3)	(3)	(2)	(2)	(1)	(1)				
Non-cash revenue	-	-	-	-	1	1	-	-				

The Authority is organized and reports to the governing body on the basis of four major functional areas: primary and secondary education; tertiary education; special education services; and other services, each headed by a director. Operations of the special education services segment includes provision of educational services on a commercial basis to the employees of major corporations. In providing these services to external parties, the commercial services unit of the segment uses, on a fee for service basis, services provided by the primary/secondary and tertiary segments. These inter-segment transfers are eliminated on consolidation.

Information reported about these segments is used by the governing board and senior management as a basis for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

The majority of the Authority's operations are domestic, except that as part of an aid program it has established facilities in Eastern Europe for the provision of secondary educational services. Total cost of services provided in Eastern Europe is 5 million (4 million in 20X1). Total carrying amount of the educational facilities in Eastern Europe are 3 million (6.5 million in 20X1). There were no outlays on the acquisition of capital assets in Eastern Europe during 20X2 or 20X1.

Inter-segment transfers: segment revenue and segment expense include revenue and expense arising from transfers between segments. Such transfers are usually accounted for at cost and are eliminated on consolidation. The amount of these transfers was 20 million (19 million in 19X1).

Investments in associates are accounted for using the equity method. The Authority owns 40% of the capital stock of EuroED Ltd, a specialist education foundation providing educational services internationally on a commercial basis under contract to multilateral lending agencies. The investment is accounted for by the equity method. The investment in, and the Authority's share of, EuroED's net profit are excluded from segment assets and segment revenue.

However they are shown separately under the other services segment, which is responsible for the administration of the investment in the associate.

A full report of the objectives established for each segment and the extent to which those objectives have been achieved is included in the Review of Operations, included elsewhere in this report.

COMPARISON WITH IAS 14

IPSAS 18 is drawn primarily from IAS 14 (revised 1997). The main differences between IPSAS 18 and IAS 14 are as follows:

- IPSAS 18 defines segments differently from IAS 14. IPSAS 18 requires entities to report segments on a basis appropriate for assessing past performance and making decision about the allocation of resources. IAS 14 requires business and geographical segments to be reported.
- IAS 14 requires disclosure of segment result, depreciation, and amortization of segment assets and other significant non-cash expenses. IPSAS 18 does not require the disclosure of segment result. IPSAS 18 encourages, but does not require, the disclosure of significant non-cash revenues that are included in segment revenue, segment depreciation, and other non-cash expenses or segment cash flows as required by IPSAS 2, *Cash Flow Statements*.
- IPSAS 18 does not require the disclosure of information about secondary segments, but encourages certain minimum disclosures about both service and geographical segments.
- IPSAS 18 does not specify quantitative thresholds that must be applied in identifying reportable segments.
- IPSAS 18 uses different terminology, in certain instances, from IAS 14. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” and “net assets/equity.” The equivalent terms in IAS 14 are “income,” “income statement,” and “equity.”

IPSAS 19—PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 37 (1998), *Provisions, Contingent Liabilities and Contingent Assets*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 37 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 19—PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* was issued in October 2002.

Since then, IPSAS 19 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Collective and Individual Services* (Amendments to IPSAS 19) (issued January 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- IPSAS 14, *Events after the Reporting Date* (issued December 2006)
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2006)

Table of Amended Paragraphs in IPSAS 19

Paragraph Affected	How Affected	Affected By
1	Amended	*Improvements to IPSAS* October 2011 IPSAS 42 January 2019
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
4	Amended	*Improvements to IPSAS* October 2011 IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
4A	New	IPSAS 40 January 2017
5	Deleted	*Improvements to IPSAS* October 2011
6	Amended	*Improvements to IPSAS* April 2016 IPSAS 44 May 2022
6A	New	*Collective and Individual Services* January 2020
Heading above paragraph 7	Deleted	IPSAS 42 January 2019
7	Deleted	IPSAS 42 January 2019
8	Deleted	IPSAS 42 January 2019
9	Deleted	IPSAS 42 January 2019
10	Deleted	IPSAS 42 January 2019
11	Deleted	IPSAS 42 January 2019
12	Amended	IPSAS 42 January 2019
13	Amended	IPSAS 43 January 2022 IPSAS 47 May 2023
14	Amended	IPSAS 39 July 2016
15	Amended	IPSAS 47 May 2023
18	Amended	*Collective and Individual Services* January 2020
19	Amended	IPSAS 42 January 2019
22	Amended	*Improvements to IPSAS* April 2016
27	Amended	IPSAS 45 May 2023
37	Amended	IPSAS 37 January 2015
77	Amended	IPSAS 42 January 2019
79A	New	*Improvements to IPSAS* January 2022
80	Amended	*Improvements to IPSAS* January 2022
87	Amended	IPSAS 14 December 2006
99	Deleted	IPSAS 42 January 2019
104	Deleted	IPSAS 42 January 2019
107	Amended	IPSAS 47 May 2023
110	Deleted	IPSAS 33 January 2015
110A	New	*Improvements to IPSAS* January 2022

Paragraph Affected	How Affected	Affected By
111[1]	Deleted	IPSAS 3 December 2006
111A	New	*Improvements to IPSAS* October 2011
111B	New	IPSAS 33 January 2015
111C	New	IPSAS 37 January 2015
111D	New	*Improvements to IPSAS* April 2016
111E	New	*The Applicability of IPSAS* April 2016
111F	New	IPSAS 39 July 2016
111G	New	IPSAS 40 January 2017
111H	Amended	*COVID-19: Deferral of Effective Dates* November 2020
111I	New	IPSAS 42 January 2019
111J	Amended	*COVID-19: Deferral of Effective Dates* November 2020
111K	New	*Improvements to IPSAS* January 2022
111L	New	IPSAS 43 January 2022
111M	New	IPSAS 44 May 2022
111N	New	IPSAS 45 May 2023
111O	New	IPSAS 47 May 2023
112	Amended	IPSAS 33 January 2015
AG1	New	*Collective and Individual Services* January 2020
AG2	New	*Collective and Individual Services* January 2020
AG3	New	*Collective and Individual Services* January 2020
AG4	New	*Collective and Individual Services* January 2020
AG5	New	*Collective and Individual Services* January 2020
AG6	New	*Collective and Individual Services* January 2020
AG7	New	*Collective and Individual Services* January 2020
AG8	New	*Collective and Individual Services* January 2020
AG9	New	*Collective and Individual Services* January 2020
AG10	New	*Collective and Individual Services* January 2020
AG11	New	*Collective and Individual Services* January 2020

1 Paragraph 111 was a transitional provision. Subsequent paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
AG12	New	*Collective and Individual Services* January 2020
AG13	New	*Collective and Individual Services* January 2020
AG14	New	*Collective and Individual Services* January 2020
AG15	New	*Collective and Individual Services* January 2020
AG16	New	*Collective and Individual Services* January 2020
AG17	New	*Collective and Individual Services* January 2020
AG18	New	*Collective and Individual Services* January 2020
AG19	New	*Collective and Individual Services* January 2020
AG20	New	*Collective and Individual Services* January 2020
IG13	Deleted	IPSAS 43 January 2022
IG14	Deleted	IPSAS 41 August 2018
IG16	Amended	IPSAS 45 May 2023

IPSAS 19—PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CONTENTS

International Public Sector Accounting Standard 19, *Provisions, Contingent Liabilities and Contingent Assets*, is set out in the objective and paragraphs 1–112. All the paragraphs have equal authority. IPSAS 19 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to (a) define provisions, contingent liabilities, and contingent assets, and (b) identify the circumstances in which provisions should be recognized, how they should be measured, and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements, to enable users to understand their nature, timing, and amount.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:**

   (a) **Social benefits within the scope of IPSAS 42;**

   (b) [Deleted]

   (c) **Those resulting from executory contracts, other than where the contract is onerous, subject to other provisions of this paragraph;**

   (d) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;**

   (e) **Those covered by another IPSAS;**

   (f) **Those arising in relation to income taxes or income tax equivalents; and**

   (g) **Those arising from employee benefits, except employee termination benefits that arise as a result of a restructuring, as dealt with in this Standard.**

2. [Deleted]

3. [Deleted]

4. **This Standard does not apply to financial instruments (including guarantees) that are within the scope of IPSAS 41, *Financial Instruments*.**

4A. This Standard does not apply to the contingent consideration of an acquirer in a public sector combination which is within the scope of IPSAS 40, *Public Sector Combinations*.

5. [Deleted]

6. This Standard applies to provisions for restructuring (including discontinued operations). When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.

6A. This Standard provides guidance on determining whether, and if so, when, a provision arises from *Collective and Individual Services* (paragraphs AG2–AG20).

7. [Deleted]

8. [Deleted]

9. [Deleted]

10. [Deleted]

11. [Deleted]

Exclusions from the Scope of the Standard

12. This Standard does not apply to executory contracts unless they are onerous.

13. Where another IPSAS deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:

    (a) [Deleted]

    (b) Leases (see IPSAS 43, *Leases*). However, this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in IPSAS 43. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance with paragraph 7 of IPSAS 43 and that have become onerous; and

    (c) Revenue from binding arrangements (see IPSAS 47, *Revenue*). However, as IPSAS 47 contains no specific requirements to address binding arrangements that are, or have become, onerous, this Standard applies to such cases.

14. This Standard does not apply to provisions for income taxes or income tax equivalents (guidance on accounting for income taxes is found in IAS 12, *Income Taxes)*. Nor does it apply to provisions arising from employee benefits (guidance on accounting for employee benefits is found in IPSAS 39, *Employee Benefits*.)

15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. IPSAS 47 identifies the circumstances in which revenue arising from binding arrangements that include compliance obligations to transfer promised goods or services to the purchaser or third-party beneficiary is recognized and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of IPSAS 47.

16. This Standard defines provisions as liabilities of uncertain timing or amount. In some countries, the term provision is also used in the context of items such as depreciation, impairment of assets, and doubtful debts; these are adjustments to the carrying amounts of assets and are not addressed in this Standard.

17. Other IPSAS specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalization of the costs recognized when a provision is made.

Definitions

18. **The following terms are used in this Standard with the meanings specified:**

    <u>Collective services</u> are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.

    A <u>constructive obligation</u> is an obligation that derives from an entity's actions where:

    (a) **By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and**

    (b) **As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.**

    A <u>contingent asset</u> is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is:

(a) **A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or**

(b) **A present obligation that arises from past events, but is not recognized because:**

   (i) **It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or**

   (ii) **The amount of the obligation cannot be measured with sufficient reliability[2].**

Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

A legal obligation is an obligation that derives from:

(a) **A contract (through its explicit or implicit terms);**

(b) **Legislation; or**

(c) **Other operation of law.**

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

A provision is a liability of uncertain timing or amount.

A restructuring is a program that is planned and controlled by management, and materially changes either:

(a) **The scope of an entity's activities; or**

(b) **The manner in which those activities are carried out.**

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.

Provisions and Other Liabilities

19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier; and

(b) Accruals are liabilities to pay for goods or services that have been received or supplied, but have not been paid, invoiced, or formally agreed with the supplier, including amounts due to employees (for

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[2] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

Relationship between Provisions and Contingent Liabilities

20. In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard, the term contingent is used for liabilities and assets that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.

21. This Standard distinguishes between:

(a) Provisions—which are recognized as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and

(b) Contingent liabilities—which are not recognized as liabilities because they are either:

(i) Possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or

(ii) Present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition

Provisions

22. **A provision shall be recognized when:**

(a) **An entity has a present obligation (legal or constructive) as a result of a past event;**

(b) **It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and**

(c) **A reliable estimate can be made of the amount of the obligation.**

If these conditions are not met, no provision shall be recognized.

Present Obligation

23. **In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.**

24. In most cases it will be clear whether a past event has given rise to a present obligation. In other cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such cases, an entity determines whether a present obligation exists at the reporting date by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting date. On the basis of such evidence:

(a) Where it is more likely than not that a present obligation exists at the reporting date, the entity recognizes a provision (if the recognition criteria are met); and

(b) Where it is more likely that no present obligation exists at the reporting date, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

Past Event

25. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

(a) Where the settlement of the obligation can be enforced by law; or

(b) In the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

26. Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future. The only liabilities recognized in an entity's statement of financial position are those that exist at the reporting date.

27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognized as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a public sector entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that public sector entity. Similarly, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused. IPSAS 45, *Property, Plant, and Equipment*, deals with items, including dismantling and site restoring costs, that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where a public sector entity decides to fit emission controls on certain of its vehicles, or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions – for example, by changing their method of operation – they have no present obligation for that future expenditure, and no provision is recognized.

28. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed – indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a decision by an entity's management, governing body, or controlling entity does not give rise to a constructive obligation at the reporting date, unless the decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

29. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused by a government agency, there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified, or when the controlling

government or the individual agency publicly accepts responsibility for rectification in a way that creates a constructive obligation.

30. Where details of a proposed new law have yet to be finalized, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. However, differences in circumstances surrounding enactment often make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases, it is not possible to judge whether a proposed new law is virtually certain to be enacted as drafted, and any decision about the existence of an obligation should await the enactment of the proposed law.

Probable Outflow of Resources Embodying Economic Benefits or Service Potential

31. For a liability to qualify for recognition, there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

32. Where there are a number of similar obligations (for example, a government's obligation to compensate individuals who have received contaminated blood from a government-owned hospital), the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized (if the other recognition criteria are met).

Reliable Estimate of the Obligation

33. The use of estimates is an essential part of the preparation of financial statements, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes, and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognizing a provision.

34. In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognized. That liability is disclosed as a contingent liability (see paragraph 100).

Contingent Liabilities

35. **An entity shall not recognize a contingent liability.**

36. A contingent liability is disclosed, as required by paragraph 100, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

37. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint arrangement debt, that part of the obligation that is to be met by other joint arrangement participants is treated as a contingent liability. The entity recognizes a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.

38. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be

required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made). For example, a local government entity may have breached an environmental law, but it remains unclear whether any damage was caused to the environment. Where, subsequently it becomes clear that damage was caused and remediation will be required, the entity would recognize a provision because an outflow of economic benefits is now probable.

Contingent Assets

39. **An entity shall not recognize a contingent asset.**

40. Contingent assets usually arise from unplanned or other unexpected events that (a) are not wholly within the control of the entity, and (b) give rise to the possibility of an inflow of economic benefits or service potential to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

41. Contingent assets are not recognized in financial statements, since this may result in the recognition of revenue that may never be realized. However, when the realization of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

42. A contingent asset is disclosed, as required by paragraph 105, where an inflow of economic benefits or service potential is probable.

43. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits or service potential has become probable, an entity discloses the contingent asset (see paragraph 105).

Measurement

Best Estimate

44. **The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.**

45. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

46. The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Example

A government medical laboratory provides diagnostic ultrasound scanners to both government-owned and privately owned medical centers and hospitals on a full-cost recovery basis. The equipment is provided with a warranty under which the medical centers and hospitals are covered for the cost of repairs of any defects that become apparent within the first six months after purchase. If minor defects were detected in all equipment provided, repair costs of 1 million currency units would result. If major defects were detected in all equipment provided, repair costs of 4 million currency units would result. The laboratory's past experience and future expectations indicate that, for the coming year, 75% of the equipment will have no defects, 20% of the equipment will have minor defects and 5% of the equipment will have major defects. In accordance with paragraph 32, the laboratory assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

(75% of nil) + (20% of 1m) + (5% of 4m) = 400,000

47. Uncertainties surrounding the amount to be recognized as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is "expected value." The provision will therefore be different, depending on whether the probability of a loss of a given amount is, for example, 60% or 90%. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the midpoint of the range is used.

48. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if a government has to rectify a serious fault in a defense vessel that it has constructed for another government, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 100,000 currency units, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.

49. The provision is measured before tax or tax equivalents. Guidance on dealing with the tax consequences of a provision, and changes in it, is found in IAS 12.

Risks and Uncertainties

50. **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**

51. Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

52. Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 98(b).

Present Value

53. **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

54. Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

When a provision is discounted over a number of years, the present value of the provision will increase each year as the provision comes closer to the expected time of settlement (see Illustrative Example).

55. Paragraph 97(e) of this Standard requires disclosure of the increase, during the period, in the discounted amount arising from the passage of time.

56. **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.**

57. In some jurisdictions, income taxes or income tax equivalents are levied on a public sector entity's surplus for the period. Where such income taxes are levied on public sector entities, the discount rate selected should be a pre-tax rate.

Future Events

58. **Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**

59. Expected future events may be particularly important in measuring provisions. For example, certain obligations may be index-linked to compensate recipients for the effects of inflation or other specific price changes. If there is sufficient evidence of likely expected rates of inflation, this should be reflected in the amount of the provision. Another example of future events affecting the amount of a provision is where a government believes that the cost of cleaning up the tar, ash, and other pollutants associated with a gasworks' site at the end of its life will be reduced by future changes in technology. In this case, the amount recognized reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology, or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

60. The effect of possible new legislation that may affect the amount of an existing obligation of a government or an individual public sector entity is taken into consideration in measuring that obligation, when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both (a) of what legislation will demand, and (b) of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Expected Disposal of Assets

61. **Gains from the expected disposal of assets shall not be taken into account in measuring a provision.**

62. Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognizes gains on expected disposals of assets at the time specified by the IPSAS dealing with the assets concerned.

Reimbursements

63. **Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated**

as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision.

64. **In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.**

65. Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses, or suppliers' warranties). The other party may either reimburse amounts paid by the entity, or pay the amounts directly. For example, a government agency may have legal liability to an individual as a result of misleading advice provided by its employees. However, the agency may be able to recover some of the expenditure from professional indemnity insurance.

66. In most cases, the entity will remain liable for the whole of the amount in question, so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognized for the full amount of the liability, and a separate asset for the expected reimbursement is recognized when it is virtually certain that reimbursement will be received if the entity settles the liability.

67. In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case, the entity has no liability for those costs, and they are not included in the provision.

68. As noted in paragraph 37, an obligation for which an entity is jointly and severally liable is a contingent liability, to the extent that it is expected that the obligation will be settled by the other parties.

Changes in Provisions

69. **Provisions shall be reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.**

70. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as an interest expense.

Use of Provisions

71. **A provision shall be used only for expenditures for which the provision was originally recognized.**

72. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognized for another purpose would conceal the impact of two different events.

Application of the Recognition and Measurement Rules

Future Operating Net Deficits

73. **Provisions shall not be recognized for net deficits from future operating activities.**

74. Net deficits from future operating activities do not meet the definition of liabilities in paragraph 18 and the general recognition criteria set out for provisions in paragraph 22.

75. An expectation of net deficits from future operating activities is an indication that certain assets used in these activities may be impaired. An entity tests these assets for impairment. Guidance on accounting for impairment is found in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate.

Onerous Contracts

76. **If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognized and measured as a provision.**

77. Paragraph 76 of this Standard applies only to contracts that are onerous.

78. Many contracts evidencing exchange transactions (for example, some routine purchase orders) can be canceled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard, and a liability exists that is recognized. Executory contracts that are not onerous fall outside the scope of this Standard.

79. This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. Therefore, it is the present obligation net of recoveries that is recognized as a provision under paragraph 76. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

79A. The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

(a) The incremental costs of fulfilling that contract—for example, direct labor and materials; and

(b) An allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling that contract among others.

80. Before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract (see IPSAS 21 and IPSAS 26).

Restructuring

81. The following are examples of events that may fall under the definition of restructuring:

(a) Termination or disposal of an activity or service;

(b) The closure of a branch office or termination of activities of a government agency in a specific location or region, or the relocation of activities from one region to another;

(c) Changes in management structure, for example, eliminating a layer of management or executive service; and

(d) Fundamental reorganizations that have a material effect on the nature and focus of the entity's operations.

82. A provision for restructuring costs is recognized only when the general recognition criteria for provisions set out in paragraph 22 are met. Paragraphs 83–96 set out how the general recognition criteria apply to restructurings.

83. **A constructive obligation to restructure arises only when an entity:**

(a) **Has a detailed formal plan for the restructuring identifying at least:**

(i) **The activity/operating unit or part of an activity/operating unit concerned;**

(ii) **The principal locations affected;**

(iii) **The location, function, and approximate number of employees who will be compensated for terminating their services;**

(iv) **The expenditures that will be undertaken; and**

(v) **When the plan will be implemented; and**

(b) **Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.**

84. Within the public sector, restructuring may occur at the whole-of-government, portfolio or ministry, or agency level.

85. Evidence that a government or an individual entity has started to implement a restructuring plan would be provided, for example, by (a) the public announcement of the main features of the plan, (b) the sale or transfer of assets, (c) notification of intention to cancel leases, or (d) the establishment of alternative arrangements for clients of services. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it gives rise to valid expectations in other parties, such as users of the service, suppliers, and employees (or their representatives) that the government or the entity will carry out the restructuring.

86. For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible, and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins, or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the government or individual entity is at present committed to restructuring, because the timeframe allows opportunities for the government or entity to change its plans.

87. A decision by management or the governing body to restructure, taken before the reporting date, does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

(a) Started to implement the restructuring plan; or

(b) Announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, disclosure may be required under IPSAS 14, *Events after the Reporting Date,* if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the financial statements.

88. Although a constructive obligation is not created solely by a management or governing body decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale or transfer of an operation, may have been concluded subject only to governing body or board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 83 are met.

89. In some countries, (a) the ultimate authority for making decisions about a public sector entity is vested in a governing body or board whose membership includes representatives of interests other than those of management (for example, employees), or (b) notification to these representatives may be necessary before the governing body or board decision is taken. Because a decision by such a governing body or board involves communication to these representatives, it may result in a constructive obligation to restructure.

Sale or Transfer of Operations

90. **No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.**

91. Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind, and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

92. Restructuring within the public sector often involves the transfer of operations from one controlled entity to another, and may involve the transfer of operations at no or nominal consideration. Such transfers will often take place under a government directive, and will not involve binding agreements as described in paragraph 90. An obligation exists only when there is a binding transfer agreement. Even where proposed transfers do not lead to the recognition of a provision, the planned transaction may require disclosure under other IPSAS, such as IPSAS 14, and IPSAS 20, *Related Party Disclosures*.

Restructuring Provisions

93. **A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:**

(a) **Necessarily entailed by the restructuring; and**

(b) **Not associated with the ongoing activities of the entity.**

94. A restructuring provision does not include such costs as:

(a) Retraining or relocating continuing staff;

(b) Marketing; or

(c) Investment in new systems and distribution networks.

These expenditures relate to the future conduct of an activity, and are not liabilities for restructuring at the reporting date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring.

95. Identifiable future operating net deficits up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract, as defined in paragraph 18.

96. As required by paragraph 61, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

Disclosure

97. **For each class of provision, an entity shall disclose:**

(a) **The carrying amount at the beginning and end of the period;**

(b) **Additional provisions made in the period, including increases to existing provisions;**

(c) **Amounts used (that is, incurred and charged against the provision) during the period;**

(d) **Unused amounts reversed during the period; and**

(e) **The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.**

Comparative information is not required.

98. **An entity shall disclose the following for each class of provision:**

(a) **A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;**

(b) **An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 58; and**

(c) **The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.**

99. [Deleted]

100. **Unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:**

(a) **An estimate of its financial effect, measured under paragraphs 44–62;**

(b) **An indication of the uncertainties relating to the amount or timing of any outflow; and**

(c) **The possibility of any reimbursement.**

101. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the requirements of paragraphs 98(a) and (b) and 100(a) and (b). Thus, it may be appropriate to treat, as a single class of provision, amounts relating to one type of obligation, but it would not be appropriate to treat, as a single class, amounts relating to environmental restoration costs and amounts that are subject to legal proceedings.

102. Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 97, 98, and 100 in a way that shows the link between the provision and the contingent liability.

103. An entity may in certain circumstances use external valuation to measure a provision. In such cases, information relating to the valuation can usefully be disclosed.

104. [Deleted]

105. **Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 44–62.**

106. The disclosure requirements in paragraph 105 are only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the entity. That is, there is no requirement to disclose this information about all contingent assets (see paragraphs 39 to 43 for a discussion of contingent assets). It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising. For example, a contingent asset would arise from a contract where a public sector entity allows a private sector company to mine one of its properties in exchange for a royalty based on a set price per ton extracted, and the company has commenced mining. In addition to disclosing the nature of the arrangement, the contingent asset should be quantified, where a reasonable estimate can be made of the quantity of mineral to be extracted and the timing of the expected cash inflows. If there were no proven reserves, or some other circumstances prevailed that indicated that it would be unlikely that any minerals would be extracted, the public sector entity would not disclose information required by paragraph 105 as there is no probable flow of benefits.

107. The disclosure requirements in paragraph 105 encompasses contingent assets from an entity's transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are addressed in IPSAS 47.

108. **Where any of the information required by paragraphs 100 and 105 is not disclosed because it is not practicable to do so, that fact shall be stated.**

109. **In extremely rare cases, disclosure of some or all of the information required by paragraphs 97–107 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**

Transitional Provision

110. [Deleted]

110A. *Improvements to IPSAS, 2021*, issued in January 2022 added paragraph 79A and amended paragraph 80. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of net assets/equity or other component of net assets/equity, as appropriate, at the date of initial application.

Effective Date

111. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2004. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2004, it shall disclose that fact.**

111A. **Paragraph 5 was deleted and paragraphs 1 and 4 were amended by *Improvements to IPSAS 2011* issued in October 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**

111B. **Paragraphs 110 and 112 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

111C. **IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 37. An entity shall apply that amendment when it applies IPSAS 37.**

111D. **Paragraph 6 was amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017, it shall disclose that fact.**

111E. **Paragraphs 2 and 3 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

111F. **Paragraph 14 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

111G. **Paragraph 4A was added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

111H. **Paragraph 4 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

111I. **Paragraphs 1, 12, 19, and 77 were amended and paragraphs 7–11, 99 and 104 were deleted by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.**

111J. **Paragraphs 6A and AG1–AG20 were added and paragraph 18 was amended by *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 42, Social Benefits, at the same time.**

111K. **Paragraphs 79A and 110A were added and paragraph 80 was amended by *Improvements to IPSAS*, 2021, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

111L. **Paragraph 13 was amended by IPSAS 43 issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

111M. **Paragraph 6 was amended by IPSAS 44 issued in May 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

111N. **Paragraph 27 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

111O. **Paragraphs 13, 15, and 107 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

112. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Tables

Provisions, Contingent Liabilities, Contingent Assets, and Reimbursements

These Tables accompany, but are not part of, IPSAS 19.

Provisions and Contingent Liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits or service potential in settlement of (a) a present obligation, or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
There is a present obligation that probably requires an outflow of resources.	**There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.**	**There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.**
A provision is recognized (paragraph 22).	No provision is recognized (paragraph 35).	No provision is recognized (paragraph 35).
Disclosures are required for the provision (paragraphs 97 and 98).	Disclosures are required for the contingent liability (paragraph 100).	No disclosure is required (paragraph 100).

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognized because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent Assets

Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
The inflow of economic benefits or service potential is virtually certain.	**The inflow of economic benefits or service potential is probable, but not virtually certain.**	**The inflow of economic benefits or service potential is not probable.**
The asset is not contingent (paragraph 41).	No asset is recognized (paragraph 39).	No asset is recognized (paragraph 39).
	Disclosures are required (paragraph 105).	No disclosure is required (paragraph 105).

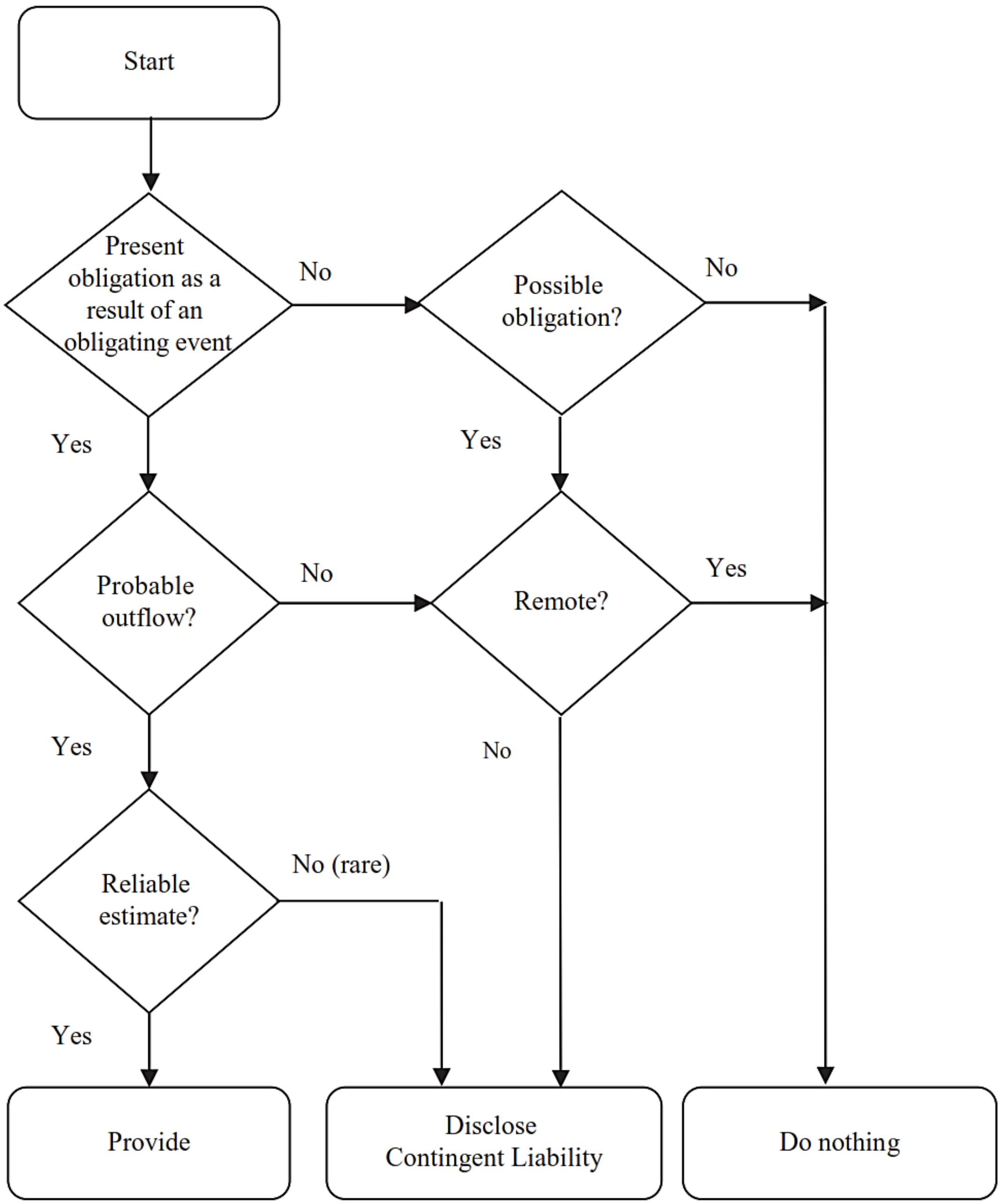
Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party.	**The obligation for the amount expected to be reimbursed remains with the entity, and it is virtually certain that reimbursement will be received if the entity settles the provision.**	**The obligation for the amount expected to be reimbursed remains with the entity, and the reimbursement is not virtually certain if the entity settles the provision.**
The entity has no liability for the amount to be reimbursed (paragraph 67).	The reimbursement is recognized as a separate asset in the statement of financial position, and may be offset against the expense in the statement of financial performance. The amount recognized for the expected reimbursement does not exceed the liability (paragraphs 63 and 64).	The expected reimbursement is not recognized as an asset (paragraph 63).
No disclosure is required.	The reimbursement is disclosed, together with the amount recognized for the reimbursement (paragraph 98(c)).	The expected reimbursement is disclosed (paragraph 98(c)).

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 19.

Note: In some cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date (paragraph 23 of this Standard).



Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 19.

Introduction

AG1. This Appendix provides guidance on determining whether a provision arises for *Collective and Individual Services*. These transactions do not meet the definition of social benefits in IPSAS 42, *Social Benefits* (and are therefore outside the scope of that Standard). This Appendix addresses the question of whether a provision needs to be recognized for these transactions before the services are delivered.

Collective and Individual Services

Scope of Collective and Individual Services

AG2. This Standard defines collective services as services provided by a public sector entity simultaneously to all members of the community and are intended to address the needs of society as a whole. The provision of a collective service to one individual does not reduce the amount available to other individuals; there is no rivalry in the consumption of collective services. Consumption of collective services is usually passive and does not require the explicit agreement or active participation of those benefiting from the service.

AG3. This Standard defines individual services as goods and services provided to individuals and households by a public sector entity and are intended to address the needs of society as a whole. The provision of an individual service to one individual may reduce the amount available to other individuals, or may delay the receipt of those services by some individuals. Consumption of individual services requires the explicit agreement or active participation of those benefiting from the service. Goods or services provided by a public sector entity on commercial terms do not address the needs of society as a whole, and therefore do not satisfy the definition of individual services.

AG4. Social benefits and *Collective and Individual Services* all address the needs of society as a whole. Addressing the needs of society as a whole does not require that each collective or individual service covers all members of society; such services can cover different segments of society. A collective or individual service that covers a segment of society as part of a wider system of similar services meets the requirement that it addresses the needs of society as a whole.

AG5. Collective services and individual services involve the provision of services by, or on behalf of, a public sector entity. Consequently, cash transfers are not collective or individual services.

AG6. Public sector entities provide *Collective and Individual Services* through their employees or by purchasing goods and services from third party providers.

AG7. Examples of collective services include defense and street lighting. Examples of individual services include healthcare and education provided at no or nominal cost. Individual services may or may not have eligibility criteria, such as reaching a certain age or a residential requirement; however, the existence (or otherwise) of eligibility criteria does not change the determination of whether transactions satisfy the definition of individual services.

AG8. Collective services are provided to a community rather than to individuals, which distinguishes them from individual services and social benefits. Individual services involve the delivery of services to individuals and/or households, which distinguishes them from social benefits that involve cash transfers (including cash equivalents such as pre-paid debit cards).

AG9. In some jurisdictions, individuals may pay for services, for example healthcare, and subsequently be reimbursed by a public sector entity. The substance of these reimbursements is that the public sector entity is paying for the services, and the transaction is an individual service rather than a social benefit.

AG10. The following table compares the key characteristics of social benefits (as defined in IPSAS 42), individual services and collective services.

	Social Benefits	**Individual Services**	**Collective Services**
Involves a cash transfer to eligible beneficiaries?	□	□	□
Provided to individuals and/or households rather than to a community?	□	□	□
Intended to address the needs of society as a whole?	□	□	□

Provision Recognized for Collective Services before the Services are Delivered

AG11. An intention to deliver collective services, budget approval to deliver those services, or the existence of legislation in respect of those services are not, in themselves, sufficient to give rise to a present obligation.

AG12. Collective services are ongoing activities of the public sector entity that delivers the services. Paragraph 26 of this Standard states that "no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future." Consequently, in accordance with the principles of this Standard, no provision is recognized for the intention to deliver such services.

AG13. In delivering collective services, a public sector entity acquires resources and incurs expenses, usually through contracts and other binding arrangements. Examples include the electricity used in delivering street lighting, the salaries paid to acquire the services of defense staff, the acquisition of non-current assets used in delivering those services, and the purchase of collective services from a third-party provider. These contracts or other binding arrangements are accounted for in accordance with other IPSAS. In some circumstances, these arrangements may give rise to provisions, for example where a contract or other binding arrangement becomes onerous. However, any such provisions relate to the binding arrangement and not to the intention to deliver collective services to the public.

No Provision Recognized for Individual Services before the Services are Delivered

AG14. An intention to deliver individual services, budget approval to deliver those services, or the existence of legislation in respect of those services are not, in themselves, sufficient to give rise to a present obligation. There are no past events that give rise to a liability for collective or individual services. As noted in paragraph AG7, individual services may or may not have eligibility criteria, such as reaching a certain age or a residential requirement. However, the existence (or otherwise) of eligibility criteria does not change the determination of whether transactions satisfy the definition of individual services.

AG15. The delivery of individual services is an ongoing activity of the public sector entity that provides the services. The delivery of individual services results in the public sector entity acquiring resources and incurring expenses, usually through contracts or other binding arrangements.

AG16. The public sector entity uses these resources to deliver services to specific individuals and/or households. Where individuals and/or households access individual services, the entity may have a number of future obligations relating to the delivery of these individual services. Such obligations are an aspect of the ongoing activities of the public sector entity. Similar to collective services, and in accordance with the principles of this

Standard, no provision is recognized for the intention to deliver such services prior to individuals and/or households accessing the services.

AG17. Examples of the resources acquired and expenses incurred in delivering individual services include the pharmaceuticals or medical supplies used in delivering healthcare, the salaries paid to acquire the services of teachers, the acquisition of non-current assets used in delivering those services (for example, a hospital or an ambulance), and the purchase of individual services from a third-party provider. These contracts and other binding arrangements are accounted for in accordance with other IPSAS. In some circumstances, these arrangements may give rise to provisions, for example where a contract or other binding arrangement becomes onerous. However, any such provisions relate to the binding arrangement and not to the intention to deliver individual services to the public.

Presentation and Disclosure of Collective and Individual Services

AG18. An entity shall present and disclose information about collective services and individual services in accordance with other IPSAS, including IPSAS 1, *Presentation of Financial Statements*, IPSAS 2, *Cash Flow Statements* and IPSAS 18, *Segment Reporting*.

AG19. IPSAS 1 requires an entity to "present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant."

AG20. Where an entity presents information based on the nature of expenses, collective services and individual services will be included in items such as employee benefit costs. Where an entity presents information based on the function of the expenses within the entity, collective services and individual services may be presented as individual line items or amalgamated with similar items depending upon their materiality.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 19.

Revision of IPSAS 19 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC1. When IPSAS 19 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector might not be completed within one year because of the levels of approval required. This had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB had concerns that not depreciating assets for an extended period of time might be inappropriate.

(b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements might not provide relevant information for these transfers. However, the IPSASB had recognized that the measurement and disclosure requirements in IFRS 5 might be appropriate where sales are intended to take place at fair value.

(c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements might not provide relevant information for public sector discontinued operations. However, the IPSASB had recognized that the disclosure requirements in IFRS 5 might be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference might result in entities following the requirements of IFRS 5 in circumstances where this may not be appropriate. The IPSASB had noted that IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSAS. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

BC1A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 19 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC2. 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 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 19 as a result of IPSAS 42, *Social Benefits*

BC3. When issued, this Standard excluded provisions and contingent liabilities "arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits" from the scope of the Standard. This reflected the view at that time that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability required further consideration.

BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.

BC5. Following the publication of IPSAS 42, all social benefits (as defined in that Standard) will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of IPSAS 42.

Revision of IPSAS 19 as a result of *Collective and Individual Services* (Amendments to IPSAS 19) issued in January 2020.

Collective and Individual Services

BC6. When IPSAS 19 was first issued, "provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits" were excluded from the scope of the Standard. IPSAS 19 described social benefits in wide terms as "goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

(a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and

(b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income."

BC7. IPSAS 42, *Social Benefits*, was issued in January 2019. IPSAS 42 amended IPSAS 19, which now excludes from its scope social benefits within the scope of IPSAS 42 (i.e., cash transfers (including cash equivalents) provided to mitigate the effect of social risks, rather than the wider range of transactions previously referred to as social benefits). A consequence of this amendment was to bring within the scope of IPSAS 19 any provisions and contingent liabilities arising from transactions that were previously excluded from the scope of IPSAS 19, but which are not within the scope of IPSAS 42. The IPSASB therefore agreed to provide guidance on accounting for these transactions. As was previously noted in IPSAS 19, a key issue for stakeholders was whether a provision arose in respect of those transactions.

BC8. Such transactions were referred to in the IPSASB's Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* (issued in August 2017), as "collective services" and "universally accessible services." (As explained in paragraph BC10, the IPSASB later decided to replace the term "universally accessible services" with the term "individual services.") In that CP, the IPSASB expressed a preliminary view that "non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient." As a result, a performance obligation approach to recognizing a non-exchange expense for these transactions would not be appropriate. Respondents to the CP generally supported that preliminary view.

BC9. In the CP, the IPSASB noted that "a public sector entity may have a number of future obligations relating to the provision of universally accessible services and collective services. Such obligations are an aspect of the ongoing activities of governments and other public sector entities; however, only present obligations give rise to liabilities. The expected future sacrifice of resources does not of itself mean that there is a present obligation. Therefore, the IPSASB is of the view that universally accessible services and collective services do not give rise to obligating events and therefore liabilities or expenses do not arise prior to the delivery of those services to beneficiaries."

BC10. Respondents to the CP also generally supported this view, and the IPSASB agreed to provide Application Guidance on accounting for these transactions in line with the approach set out in the CP. The IPSASB also noted that some respondents considered that the term "universally accessible services" was confusing. The IPSASB agreed to avoid this term, and instead agreed to adopt the term "individual services", which is consistent with the term used in Government Finance Statistics (GFS) and with the term used in the IPSASB's earlier work on social benefits.

BC11. The IPSASB agreed that, because liabilities or expenses for the delivery of *Collective and Individual Services* do not arise prior to the delivery of those services to beneficiaries, it is appropriate to account for the delivery of these services in accordance with other IPSAS. For example, IPSAS 39, *Employee Benefits*, covers the expenses incurred in employing staff to deliver these services, IPSAS 12, *Inventories*, covers the expenses incurred in delivering goods to individuals and households, and IPSAS 41, *Financial Instruments*, covers the financial liability that may be incurred in acquiring goods or services.

BC12. In agreeing that liabilities or expenses for the delivery of *Collective and Individual Services* do not arise prior to the delivery of those services to beneficiaries, the IPSASB noted that although the nature of *Collective and Individual Services* are different, the rationale for why a provision does not arise earlier for both these expense categories was similar. The IPSASB agreed that the guidance should reflect this.

BC13. The IPSASB noted that collective services are ongoing activities of government. Paragraph 26 of IPSAS 19 states that "no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future". Consequently, the IPSASB agreed that recognizing a provision for collective services would be contrary to the requirements of paragraph 26 of IPSAS 19.

BC14. The IPSASB noted that individual services are ongoing activities of government, in the same way as collective services, and that recognizing a provision for such services would also be contrary to the requirements of paragraph 26 of IPSAS 19.

BC15. The IPSASB considered whether specific disclosures for *Collective and Individual Services* were required, and concluded that the existing requirements in IPSAS 1, *Presentation of Financial Statements*, IPSAS 2, *Cash Flow Statements*, and IPSAS 18, *Segment Reporting*, and the various IPSAS dealing with the specific transactions would provide sufficient information to meet users' needs. Consequently, the IPSASB agreed not to require any specific disclosures for *Collective and Individual Services*.

Responses to ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19)

BC16. The IPSASB issued its proposals in ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) in January 2019.

BC17. Respondents generally supported the proposals in respect of *Collective and Individual Services*, but raised a number of issues for the IPSASB to consider in finalizing the amendments.

BC18. A number of these issues related to the definitions of collective services and individual services. The IPSASB decided not to make any changes to the definitions, for the following reasons:

(a) Some respondents questioned whether two definitions were required when the accounting treatment was the same. The IPSASB considered that the fact that the nature of collective services is different from the nature of individual services meant that retaining separate definitions was appropriate. The IPSASB also noted that this would be consistent with the approach in GFS.

(b) Respondents commented that *Collective and Individual Services* are non-cash transactions and that this should be reflected in the definitions. The IPSASB decided to make specific reference to the non-cash nature of *Collective and Individual Services* in the Application Guidance.

(c) Some respondents questioned why the definition of collective services did not refer to goods, unlike the definition of individual services. The IPSASB noted that the assets (such as lamp posts) that are used to deliver collective services are referred to in GFS as collective goods. However, such assets remain under the entity's control and are not transferred to service recipients. Consequently, the IPSASB agreed not to include goods in the definition of collective services.

(d) A respondent proposed amending the definitions of collective services and individual services to refer to services that are continually provided. The IPSASB considered that this was already implicitly addressed in the description of collective services and individual services as ongoing activities of public sector entities, and agreed that no change to the definitions was needed. The IPSASB noted that a consequence of the fact that *Collective and Individual Services* are continually provided is that no provision is recognized because the past event that gives rise to a present obligation occurs simultaneously with the provision of services that satisfies that obligation.

BC19. Further issues related to the accounting for *Collective and Individual Services*. There was strong support for the proposals that a provision should not be recognized for these transactions, but some respondents considered that the rationale needed to be strengthened. In considering these comments, the IPSASB came to the following conclusions:

(a) Some respondents commented that as well as being ongoing activities of a public sector entity, *Collective and Individual Services* were not independent of an entity's future actions, as described in paragraph 27 of IPSAS 19. These respondents considered that this should be discussed in the final pronouncement. The IPSASB accepted that this would be true in some cases, but noted that in many jurisdictions, there is a legal requirement for a government or other public sector entity to provide collective services. While there may be elements of discretion in how the services are delivered, the obligation to provide services remains. Consequently, the IPSASB agreed not to include this issue.

(b) Respondents noted that in IPSAS 42, the IPSASB had acknowledged that some stakeholders considered that an entity having to recognize large liabilities for services to be delivered in the future without the recognition of future taxes to pay for those services is unlikely to meet the objectives of financial reporting and satisfy the qualitative characteristics. Respondents considered that this rationale applied equally to *Collective and Individual Services*. The IPSASB concurred.

(c) Some respondents commented that while no provision arises from an entity's intentions to deliver *Collective and Individual Services* to the public, a provision might arise from the binding arrangements through which those services are provided. The IPSASB concurred and agreed to include additional guidance to this effect.

(d) Some respondents raised concerns regarding the proposed treatment of vouchers in ED 67, and questioned whether they should be treated in same way as loyalty programs such as airlines' frequent flier programs. The IPSASB accepted these concerns, and noted that the appropriate treatment (in terms of the past event and therefore the recognition point) will vary depending on the conditions attached to the vouchers. The IPSASB agreed it was inappropriate to develop guidance for all these circumstances.

Emergency Relief

BC20. The IPSASB included proposals for accounting for emergency relief in ED 67. While many respondents were supportive of providing such guidance, several issues were raised. Respondents considered that a definition of emergency relief would be required, notwithstanding the fact that the diverse practices across jurisdictions makes this difficult. Respondents also questioned whether the proposed distinction between emergency relief that is an ongoing activity of government and emergency relief provided in response to specific emergencies was always appropriate, and whether it could be applied consistently. Respondents further questioned how other assistance that did not fall within the scope of emergency relief should be accounted for.

BC21. In light of these concerns, the IPSASB decided not to proceed with the guidance on emergency relief proposed in ED 67. The IPSASB decided to consider the topic in developing its Mid-Term Work Program Consultation 2021.

Revision of IPSAS 19 as a result of COVID-19: Deferral of Effective Dates

BC22. The IPSASB published *Collective and Individual Services* (Amendments to IPSAS 19) in January 2020. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC23. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC24. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC25. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 19 as a result of *Improvements to IPSAS, 2021*

BC26. The IPSASB reviewed the revisions to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, included in *Onerous Contracts—Cost of Fulfilling a Contract* (Amendments to IAS 37) 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.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 19.

Recognition

IG1. All the entities in the examples have a reporting date of December 31. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples, the circumstances described may have resulted in impairment of the assets—this aspect is not dealt with in the examples.

IG2. The cross-references provided in the examples indicate paragraphs of this Standard that are particularly relevant. This guidance should be read in the context of the full text of this Standard.

IG3. References to "best estimate" are to the present value amount, where the effect of the time value of money is material.

Warranties

IG4. Government Department A manufactures search and rescue equipment for use within the Government and for sale to the public. At the time of sale, the Department gives warranties to purchasers in relation to certain products. Under the terms of the sale, the Department undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (that is, more likely than not) that there will be some claims under the warranties.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits or service potential in settlement – Probable for the warranties as a whole (see paragraph 32).

Conclusion

A provision is recognized for the best estimate of the costs of making good under the warranty products sold on or before the reporting date (see paragraphs 22 and 32).

Contaminated Land—Legislation Virtually Certain to be Enacted

IG5. A provincial government owns a warehouse on land near a port. The provincial government has retained ownership of the land because it may require the land for future expansion of its port operations. For the past ten years, a group of farmers have leased the property as a storage facility for agricultural chemicals. The national government announces its intention to enact environmental legislation requiring property owners to accept liability for environmental pollution, including the cost of cleaning-up contaminated land. As a result, the provincial government introduces a hazardous chemical policy and begins applying the policy to its activities and properties. At this stage it becomes apparent that the agricultural chemicals have contaminated the land surrounding the warehouse. The provincial government has no recourse against the farmers or its insurance company for the clean-up costs. At December 31, 2001 it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year end.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land because of the virtual certainty of legislation requiring the clean-up.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Contamination and Constructive Obligation

IG6. A government has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The government has a record of honoring this published policy. There is no environmental legislation in place in the jurisdiction. During the course of a naval exercise, a vessel is damaged and leaks a substantial amount of oil. The government agrees to pay for the costs of the immediate clean-up and the ongoing costs of monitoring and assisting marine animals and birds.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the environment, which gives rise to a constructive obligation because the policy and previous conduct of the government has created a valid expectation that the government will clean up the contamination.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Gravel Quarry

IG7. A government operates a gravel quarry on land that it leases on a commercial basis from a private sector company. The gravel is used for the construction and maintenance of roads. The agreement with the landowners requires the government to restore the quarry site by removing all buildings, reshaping the land, and replacing all topsoil. 60% of the eventual restoration costs relate to the removal of the quarry buildings and restoration of the site, and 40% arise through the extraction of gravel. At the reporting date, the quarry buildings have been constructed, and excavation of the site has begun but no gravel has been extracted.

Analysis

Present obligation as a result of a past obligating event – The construction of buildings and the excavation of the quarry creates a legal obligation under the terms of the agreement to remove the buildings and restore the site, and is thus an obligating event. At the reporting date, however, there is no obligation to rectify the damage that will be caused by extraction of the gravel.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of 60% of the eventual costs that relate to the removal of the buildings and restoration of the site (see paragraph 22). These costs are included as part of the cost of the quarry. The 40% of costs that arise through the extraction of gravel are recognized as a liability progressively when the gravel is extracted.

Refunds Policy

IG8. A government stores agency operates as a centralized purchasing agency and allows the public to purchase surplus supplies. It has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the sale of the supplies, which gives rise to a constructive obligation, because the conduct of the agency has created a valid expectation on the part of its customers that the agency will refund purchases.

An outflow of resources embodying economic benefits or service potential in settlement – Probable that a proportion of goods are returned for refund (see paragraph 32).

Conclusion

A provision is recognized for the best estimate of the costs of refunds (see paragraphs 18 (the definition of a constructive obligation), 22, 25, and 32).

Closure of a Division—No Implementation before Reporting Date

IG9. On 12 December 2004, a government decides to close down a division of a government agency. The decision was not communicated to any of those affected before the reporting date (December 31, 2004), and no other steps were taken to implement the decision.

Analysis

Present obligation as a result of a past obligating event – There has been no obligating event and so there is no obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 83).

Outsourcing of a Division—Implementation Before the Reporting Date

IG10. On December 12, 2004, a government decided to outsource a division of a government department. On December 20, 2004, a detailed plan for outsourcing the division was agreed by the government, and redundancy notices were sent to the staff of the division.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the communication of the decision to employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be outsourced.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized at December 31, 2004 for the best estimate of the costs of outsourcing the division (see paragraphs 22 and 83).

Legal Requirement to Fit Air Filters

IG11. Under new legislation, a local government entity is required to fit new air filters to its public buildings by 30 June 2005. The entity has not fitted the air filters.

Analysis

(a) At the reporting date of December 31, 2004

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting air filters or for fines under the legislation.

Conclusion

No provision is recognized for the cost of fitting the filters (see paragraphs 22 and 25–27).

Analysis

(b) At the reporting date of December 31, 2005

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting air filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliance of the public buildings).

An outflow of resources embodying economic benefits or service potential in settlement – Assessment of probability of incurring fines and penalties for non-compliance depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion

No provision is recognized for the costs of fitting air filters. However, a provision is recognized for the best estimate of any fines and penalties that are more likely than not to be imposed (see paragraphs 22 and 25–27).

Staff Retraining as a Result of Changes in the Income Tax System

IG12. The government introduces a number of changes to the income tax system. As a result of these changes, the taxation department (reporting entity) will need to retrain a large proportion of its administrative and compliance staff in order to ensure continued compliance with financial services regulation. At the reporting date, no retraining of staff has taken place.

Analysis

Present obligation as a result of a past obligating event – There is no obligation because no obligating event (retraining) has taken place.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

An Onerous Contract

IG13. [Deleted]

A Single Guarantee

IG14. [Deleted]

A Court Case

IG15. After a luncheon in 2004, ten people died, possibly as a result of food poisoning from products sold by a restaurant at a public museum (the reporting entity). Legal proceedings are started seeking damages from the entity, but it disputes liability. Up to the date of authorization of the financial statements for the year to December 31, 2004 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to December 31, 2005, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Analysis

(a) At December 31, 2004

Present obligation as a result of a past obligating event – On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion

No provision is recognized by the museum (see paragraphs 23 and 24). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraphs 100 and 109).

Analysis

(b) At December 31, 2005

Present obligation as a result of a past obligating event – On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the amount to settle the obligation (paragraphs 22–24 and 109).

Repairs and Maintenance

IG16. Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. IPSAS 45, *Property, Plant, and Equipment*, gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Refurbishment Costs—No Legislative Requirement

IG17. A furnace for heating a building that is leased out by a government department to a number of public sector tenants has a lining that needs to be replaced every five years for technical reasons. At the reporting date, the lining has been in use for three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

The cost of replacing the lining is not recognized because, at the reporting date, no obligation to replace the lining exists independently of the entity's future actions – even the intention to incur the expenditure depends on the entity deciding to continue operating the furnace or to replace the lining. Instead of a provision being recognized, the depreciation of the lining takes account of its consumption, that is, it is depreciated over five years. The re-lining costs then incurred are capitalized, with the consumption of each new lining shown by depreciation over the subsequent five years.

Refurbishment Costs—Legislative Requirement

IG18. A government cartography service is required by law to overhaul its aircraft used for aerial mapping once every three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

The costs of overhauling aircraft are not recognized as a provision for the same reasons as the cost of replacing the lining is not recognized as a provision in example of paragraph IG17. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the entity's future actions – the entity could avoid the future expenditure by its future actions, for example by selling the aircraft.

Disclosures

Two examples of the disclosures required by paragraph 98 are provided below.

Warranties

IG19. A government department with responsibility for the prevention of workplace accidents gives warranties at the time of sale to purchasers of its safety products. Under the terms of the warranty, the department undertakes to repair or replace items that fail to perform satisfactorily for two years from the date of sale. At the reporting date, a provision of 60,000 currency units has been recognized. The provision has not been discounted, as the effect of discounting is not material. The following information is disclosed:

A provision of 60,000 currency units has been recognized for expected warranty claims on products sold during the last three financial years. It is expected that the majority of this expenditure will be incurred in the next financial year, and all will be incurred within two years of the reporting date.

Decommissioning Costs

IG20. In 2005, a state-owned research facility, which uses a nuclear reactor to develop radio isotopes that are used for medical purposes, recognizes a provision for decommissioning costs of 300 million currency units. The provision is estimated using the assumption that decommissioning will take place in 60–70 years' time. However, there is a possibility that it will not take place until 100–110 years' time, in which case the present value of the costs will be significantly reduced. The following information is disclosed:

A provision of 300 million currency units has been recognized for decommissioning costs. These costs are expected to be incurred between 2065 and 2075; however, there is a possibility that decommissioning will not take place until 2105-2115. If the costs were measured based upon the expectation that they would not be incurred until 2105–2115 the provision would be reduced to 136 million. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 2%.

Disclosure Exemption

An example is given below of the disclosures required by paragraph 109 where some of the information required is not given because it can be expected to prejudice seriously the position of the entity.

IG21. A government research agency is involved in a dispute with a company, which is alleging that the research agency has infringed copyright in its use of genetic material, and is seeking damages of 100 million currency units. The research agency recognizes a provision for its best estimate of the obligation, but discloses none of the information required by paragraphs 97 and 98 of the Standard. The following information is disclosed:

Litigation is in process against the agency relating to a dispute with a company that alleges that the agency has infringed patents, and is seeking damages of 100 million currency units. The information usually required by IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, is not disclosed, on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The board is of the opinion that the claim can be successfully defended by the agency.

Illustrative Example

This example accompanies, but is not part of, IPSAS 19.

Present Value of a Provision

The following example illustrates the journal entries made on initial recognition of the present value of a provision, and the subsequent recognition of increases in the present value of that provision. The increase in the provision is recognized as an interest expense (paragraph 70).

IE1. The expected value of a provision at the end of year 5 is 2000 currency units. This expected value has not been risk-adjusted. An appropriate discount rate that takes account of the risk associated with this cash flow has been estimated at 12%.

IE2. Journal entries to record the provision and changes in the value of the provision each year are as follows:

End of current reporting period			
DR	Expense	1134.85	
CR	Provision		1134.85
End of Year 1			
DR	Interest Expense	136.18	
CR	Provision		136.18
End of Year 2			
DR	Interest Expense	152.52	
CR	Provision		152.52
End of Year 3			
DR	Interest Expense	170.83	
CR	Provision		170.83
End of Year 4			
DR	Interest Expense	191.33	
CR	Provision		191.33
End of Year 5			
DR	Interest Expense	214.29	
CR	Provision		214.29

Calculations:		**Increase**
Current time:	Present value = 2000/(1.12)5 = 1134.85	
End of Year 1:	Present value = 2000/(1.12)4 = 1271.04	136.18
End of Year 2:	Present value = 2000/(1.12)3 = 1423.56	152.52
End of Year 3:	Present value = 2000/(1.12)2 = 1594.39	170.83
End of Year 4:	Present value = 2000/(1.12)1 = 1785.71	191.33
End of Year 5:	Present value = 2000/(1.12)0 = 2000.00	214.29

COMPARISON WITH IAS 37

IPSAS 19 is drawn primarily from IAS 37 (1998). The main differences between IPSAS 19 and IAS 37 are as follows:

- IPSAS 19 includes commentary additional to that in IAS 37 to clarify the applicability of the standards to accounting by public sector entities. IPSAS 19 clarifies that it does not apply to social benefits within the scope of IPSAS 42, *Social Benefits*.
- Black letter in IAS 37 has been modified, and commentary additional to that in IAS 37 has been included in IPSAS 19 to clarify that, in the case of onerous contracts, it is the present obligation net of recoveries that is recognized as a provision.
- The scope paragraph in IPSAS 19 makes it clear that while provisions, contingent liabilities, and contingent assets arising from employee benefits are excluded from the scope of the Standard, the Standard, however, applies to provisions, contingent liabilities, and contingent assets arising from termination benefits that result from a restructuring dealt with in the Standard.
- IPSAS 19 uses different terminology, in certain instances, from IAS 37. The most significant examples are the use of the terms “revenue” and “statement of financial performance” in IPSAS 19. The equivalent terms in IAS 37 are “income” and “income statement.”
- IPSAS 19 contains the definitions of technical terms used in IAS 37, and an additional definition for “executory contracts.”
- IPSAS 19 provides additional guidance on *Collective and Individual Services*. It explains that public sector entities do not recognize a provision for “*Collective and Individual Services*.”
- The Implementation Guidance has been amended to be more reflective of the public sector.
- IPSAS 19 contains an Illustrated Example that illustrates the journal entries for recognition of the change in the value of a provision over time, due to the impact of the discount factor.

IPSAS 20—RELATED PARTY DISCLOSURES

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 24 (Reformatted 1994), *Related Party Disclosures*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 24 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 20—RELATED PARTY DISCLOSURES

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 20, *Related Party Disclosures* was issued in October 2002.

Since then, IPSAS 20 has been amended by the following IPSAS:

- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS* (issued November 2010)

Table of Amended Paragraphs in IPSAS 20

Paragraph Affected	How Affected	Affected By
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
4	Amended	IPSAS 37 January 2015
15	Amended	IPSAS 37 January 2015
24	Amended	*Improvements to IPSAS* November 2010 IPSAS 35 January 2015
27	Amended	*Improvements to IPSAS* April 2016
32	Amended	*Improvements to IPSAS* April 2016
33	Amended	IPSAS 35 January 2015
38	Amended	IPSAS 39 July 2016
42A	New	IPSAS 33 January 2015
42B	New	IPSAS 37 January 2015 IPSAS 35 January 2015
42C	New	*Improvements to IPSAS* April 2016
42D	New	*The Applicability of IPSAS* April 2016
42E	New	IPSAS 39 July 2016
43	Amended	IPSAS 33 January 2015

October 2002

IPSAS 20—RELATED PARTY DISCLOSURES

CONTENTS

International Public Sector Accounting Standard 20, *Related Party Disclosures*, is set out in the objective and paragraphs 1–43. All the paragraphs have equal authority. IPSAS 20 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to require the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are (a) identifying which parties control or significantly influence the reporting entity, and (b) determining what information should be disclosed about transactions with those parties.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in disclosing information about related party relationships and certain transactions with related parties.**

2. [Deleted]

3. [Deleted]

Definitions

4. **The following terms are used in this Standard with the meanings specified:**

Close members of the family of an individual are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity.

Key management personnel are:

(a) **All directors or members of the governing body of the entity; and**

(b) **Other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include:**

(i) **Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member;**

(ii) **Any key advisors of that member; and**

(iii) **Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.**

Oversight means the supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.

Related party means parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

(a) **Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;**

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

(c) **Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;**

(d) **Key management personnel, and close members of the family of key management personnel; and**

(e) **Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.**

<u>Related party transaction</u> is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

<u>Remuneration of key management personnel</u> is any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.

<u>Significant influence</u> (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in IPSAS 36.

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.

Close Member of the Family of an Individual

5. Judgment will be necessary in determining whether an individual should be identified as a close member of the family of an individual for purposes of application of this Standard. In the absence of information to the contrary, such as that a spouse or other relative is estranged from the individual, the following immediate family members and close relatives are presumed to have, or be subject to, such influence as to satisfy the definition of close members of the family of an individual:

   (a) A spouse, domestic partner, dependent child, or relative living in a common household;

   (b) A grandparent, parent, nondependent child, grandchild, brother, or sister; and

   (c) The spouse or domestic partner of a child, a parent-in-law, a brother-in-law, or a sister-in-law.

Key Management Personnel

6. Key management personnel include all directors or members of the governing body of the reporting entity, where that body has the authority and responsibility for planning, directing, and controlling the activities of the entity. At the whole-of-government level, the governing body may consist of elected or appointed representatives (for example, a president or governor, ministers, councilors and aldermen or their nominees).

7. Where an entity is subject to the oversight of an elected or appointed representative of the governing body of the government to which the entity belongs, that person is included in key management personnel, if the oversight function includes the authority and responsibility for planning, directing, and controlling the activities of the entity. In many jurisdictions, key advisors of that person may not possess sufficient authority, legal or otherwise, to satisfy the definition of key management personnel. In other jurisdictions, key advisors of that

person may be deemed to be key management personnel because they have a special working relationship with an individual who has control over an entity. They therefore have access to privileged information, and may also be able to exercise control or significant influence over an entity. Judgment is required in assessing whether an individual is a key advisor, and whether that advisor satisfies the definition of key management personnel, or is a related party.

8. The governing body, together with the chief executive and senior management group, has the authority and responsibility to plan and control the activities of the entity, to manage the resources of the entity and for the overall achievement of entity objectives. Therefore, key management personnel will include the chief executive and senior management group of the reporting entity. In some jurisdictions, civil servants will not have sufficient authority and responsibility to qualify as key management personnel (as defined by this Standard) of the whole-of-government reporting entity. In these cases, key management personnel will consist only of those elected members of the governing body who have the greatest responsibility for the government; often these persons are referred to as Cabinet Ministers.

9. The senior management group of an economic entity may comprise individuals from both the controlling entity and other entities that collectively make up the economic entity.

Related Parties

10. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

11. Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.

12. In the context of this Standard, the following are deemed not to be related parties:

    (a) Providers of finance in the course of their business in that regard; and

        (i) Trade unions;

        (ii) in the course of their normal dealings with an entity by virtue only of those dealings (although they may circumscribe the freedom of action of an entity or participate in its decision-making process); and

    (b) An entity with which the relationship is solely that of an agency.

13. Related party relationships may arise when an individual is either a member of the governing body or is involved in the financial and operating decisions of the reporting entity. Related party relationships may also arise through external operating relationships between the reporting entity and the related party. Such relationships will often involve a degree of economic dependency.

14. Economic dependency, where one entity is dependent on another in that it relies on the latter for a significant volume of its funding or sale of its goods and services, would on its own be unlikely to lead to control or significant influence and is therefore unlikely to give rise to a related party relationship. As such, a single customer, supplier, franchisor, distributor, or general agent with whom a public sector entity transacts a significant volume of business will not be a related party merely by virtue of the resulting economic dependency. However, economic dependency, together with other factors, may give rise to significant influence, and therefore a related party relationship. Judgment is required in assessing the impact of economic dependence on a relationship. Where the reporting entity is economically dependent on another entity, the reporting entity is encouraged to disclose the existence of that dependency.

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures.

Remuneration of Key Management Personnel

16. Remuneration of key management personnel includes remuneration derived by individuals from the reporting entity for services provided to the reporting entity in their capacity as members of the governing body or employees. Benefits derived directly or indirectly from the entity for services in any capacity, other than as an employee or a member of the governing body, do not satisfy the definition of remuneration of key management personnel in this Standard. However, paragraph 34 requires disclosures to be made about certain of these other benefits. Remuneration of key management personnel excludes any consideration provided solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity, such as the reimbursement of accommodation costs associated with work-related travel.

Voting Power

17. The definition of related party will include any individuals owning, directly or indirectly, an interest in the voting power of the reporting entity that gives them significant influence over the entity. The holding of an interest in the voting power of an entity can arise when a public sector entity has a corporate structure, and a minister or government agency holds shares in the entity.

The Related Party Issue

18. Related party relationships exist throughout the public sector, because:

    (a) Administrative units are subject to the overall direction of the executive government and, ultimately, the Parliament or similar body of elected or appointed officials, and operate together to achieve the policies of the government;

    (b) Government departments and agencies frequently conduct activities necessary for the achievement of different components of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence; and

    (c) Ministers or other elected or appointed members of the government and senior management group can exert significant influence over the operations of a department or agency.

19. Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and enables users to better understand the financial statements of the reporting entity because:

    (a) Related party relationships can influence the way in which an entity operates with other entities in achieving its individual objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;

    (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of the relationship; and

    (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This occurs frequently in government departments and agencies, where goods and services are transferred between departments at less than full cost recovery as a part of normal operating procedures consistent with the achievement of the objectives of the reporting entity and the government. Governments and individual public sector entities are expected to use resources efficiently, effectively, and in the manner intended, and to deal with public monies with the highest levels of integrity. The existence of related party relationships means that one party can control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may advantage one party inappropriately at the expense of another.

20. Disclosure of certain types of related party transactions that occur, and the terms and conditions on which they were conducted, allows users to assess the impact of those transactions on the financial position and performance of an entity, and its ability to deliver agreed services. This disclosure also ensures that the entity is transparent about its dealings with related parties.

Remuneration of Key Management Personnel

21. Key management personnel hold positions of responsibility within an entity. They are responsible for the strategic direction and operational management of an entity, and are entrusted with significant authority. Their salaries are often established by statute, or an independent tribunal or other body independent of the reporting entity. However, their responsibilities may enable them to influence the benefits of office that flow to them or their related parties. This Standard requires certain disclosures to be made about (a) the remuneration of key management personnel and close members of the family of key management personnel during the reporting period, (b) loans made to them, and (c) the consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee. The disclosures required by this Standard will ensure that appropriate minimum levels of transparency are applied to the remuneration of key management personnel and close members of the family of key management personnel.

Materiality

22. IPSAS 1 requires the separate disclosure of material items. The materiality of an item is determined with reference to the nature or size of that item. When assessing the materiality of related party transactions, the nature of the relationship between the reporting entity and the related party, and the nature of the transaction, may mean that a transaction is material regardless of its size.

Disclosure

23. In many countries, the laws and other authoritative financial reporting rules require financial statements of private sector entities and commercial public sector entities to disclose information about certain categories of related parties and related party transactions. In particular, attention is focused on the entity’s transactions with its directors or members of its governing body and with its senior management group, especially their remuneration and borrowings. This is (a) because of the fiduciary responsibilities of directors, members of the governing body, and senior management group, and (b) because they have extensive powers over the deployment of entity resources. In some jurisdictions, similar requirements are included in the statutes and regulations applicable to public sector entities.

24. Some IPSAS also require disclosure of transactions with related parties. For example, IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates, and other related parties. IPSAS 38, Disclosure of Interests in Other Entities, requires an entity to disclose information that enables users of its consolidated financial statements to understand the composition of the economic entity and information about each joint arrangement and associate that is material to the reporting entity.

Disclosure of Control

25. **Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties.**

26. In order for a reader of financial statements to form a view about the effects of related party relationships on a reporting entity, it is appropriate to disclose related party relationships where control exists, irrespective of whether there have been transactions between the related parties. This would involve the disclosure of the names of any controlled entities, the name of the immediate controlling entity, and the name of the ultimate controlling entity, if any.

Disclosure of Related Party Transactions

27. **In respect of transactions between related parties, other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances, the reporting entity shall disclose:**

    (a) **The nature of the related party relationships;**

    (b) **The types of transactions that have occurred; and**

    (c) **The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and faithfully representative information for decision making and accountability purposes.**

28. The following are examples of situations where related party transactions may lead to disclosures by a reporting entity:

    (a) Rendering or receiving of services;

    (b) Purchases or transfers/sales of goods (finished or unfinished);

    (c) Purchases or transfers/sales of property and other assets;

    (d) Agency arrangements;

    (e) Leasing arrangements;

    (f) Transfer of research and development;

    (g) License agreements;

    (h) Finance (including loans, capital contributions, grants whether in cash or in kind, and other financial support, including cost-sharing arrangements); and

    (i) Guarantees and collaterals.

29. Public sector entities transact extensively with each other on a daily basis. These transactions may occur at cost, less than cost or free of charge. For example, a government department of administrative services may provide office accommodation free of charge to other departments, or a public sector entity may act as a purchasing agent for other public sector entities. In some models of government, there may be the capacity for recovery of more than the full cost of service delivery. Departments are related parties because they are subject to common control, and these transactions meet the definition of related party transactions. However, disclosure of information about transactions between these entities is not required where the transactions (a) are consistent with normal operating relationships between the entities, and (b) are undertaken on terms and conditions that are normal for such transactions in these circumstances. The exclusion of these related party transactions from the disclosure requirements of paragraph 27 reflects that public sector entities operate

together to achieve common objectives, and acknowledges that different mechanisms may be adopted for the delivery of services by public sector entities in different jurisdictions. This Standard requires disclosures of related party transactions only when those transactions occur other than in accordance with the operating parameters established in that jurisdiction.

30. The information about related party transactions that would need to be disclosed to meet the objectives of general purpose financial reporting would normally include:

(a) A description of the nature of the relationship with related parties involved in these transactions, for example, whether the relationship was one of a controlling entity, a controlled entity, an entity under common control, or key management personnel;

(b) A description of the related party transactions within each broad class of transaction and an indication of the volume of the classes, either as a specific monetary amount or as a proportion of that class of transactions and/or balances;

(c) A summary of the broad terms and conditions of transactions with related parties, including disclosure of how these terms and conditions differ from those normally associated with similar transactions with unrelated parties; and

(d) Amounts or appropriate proportions of outstanding items.

31. Paragraph 34 of this Standard requires additional disclosures to be made about certain transactions between an entity and key management personnel and/or the close members of the family of key management personnel.

32. **Items of a similar nature may be disclosed in aggregate, except when separate disclosure is necessary to provide relevant and faithfully representative information for decision-making and accountability purposes.**

33. Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements, because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity, except for those between an investment entity and its controlled entities measured at fair value through surplus or deficit, are eliminated on consolidation in accordance with IPSAS 35, *Consolidated Financial Statements*. Transactions with associated entities accounted for under the equity method are not eliminated, and therefore require separate disclosure as related party transactions.

Disclosure—Key Management Personnel

34. **An entity shall disclose:**

(a) **The aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;**

(b) **The total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period, showing separately the aggregate amounts provided to:**

(i) **Key management personnel; and**

(ii) **Close members of the family of key management personnel; and**

(c) **In respect of loans that are not widely available to persons who are not key management personnel and loans whose availability is not widely known by members of the public, for each**

individual member of key management personnel and each close member of the family of key management personnel:

(i) **The amount of loans advanced during the period and terms and conditions thereof;**

(ii) **The amount of loans repaid during the period;**

(iii) **The amount of the closing balance of all loans and receivables; and**

(iv) **Where the individual is not a director or member of the governing body or senior management group of the entity, the relationship of the individual to such body or group.**

35. Paragraph 27 of this Standard requires the disclosure of related party transactions that have occurred other than on an arm's length basis consistent with the operating conditions established for the entity. This Standard also requires the disclosure of information about certain transactions with key management personnel identified in paragraph 34, whether or not they have occurred on an arm's length basis consistent with the operating conditions that apply in respect of the entity.

36. Persons who are key management personnel may be employed on a full- or part-time basis. The number of individuals disclosed as receiving remuneration in accordance with paragraph 34(a) needs to be estimated on a full-time equivalent basis. Entities will make separate disclosures about the major classes of key management personnel that they have. For example, where an entity has a governing body that is separate from its senior management group, disclosures about remuneration of the two groups will be made separately. Where an individual is a member of both the governing body and the senior management group, that individual will be included in only one of those groups for the purposes of this Standard. The categories of key management personnel identified in the definition of key management personnel provide a guide to identifying classes of key management personnel.

37. Remuneration of key management personnel can include a variety of direct and indirect benefits. Where the cost of these benefits is determinable, that cost will be included in the aggregate remuneration disclosed. Where the cost of these benefits is not determinable, a best estimate of the cost to the reporting entity or entities will be made and included in the aggregate remuneration disclosed.

38. Requirements on the measurement of employee benefits are found in IPSAS 39, *Employee Benefits*. When non-monetary remuneration that is able to be reliably measured has been included in the aggregate amount of remuneration of key management personnel disclosed for the period, disclosure would also be made in the notes to the financial statements of the basis of measurement of the non-monetary remuneration.

39. This Standard requires the disclosure of certain information about the terms and conditions of loans made to key management personnel and close members of the family of key management personnel, where these loans:

(a) Are not widely available to persons outside the key management group; and

(b) May be widely available outside the key management group, but whose availability is not widely known to members of the public.

The disclosure of this information is required for accountability purposes. The exercise of judgment may be necessary in determining which loans should be disclosed to satisfy the requirements of this Standard. That judgment should be exercised after consideration of the relevant facts, and in a manner consistent with the achievement of the objectives of financial reporting.

40. Paragraph 34(a) of this Standard requires disclosure of the aggregate remuneration of key management personnel. Key management personnel include directors or members of the governing body and members of the senior management group of the entity. Directors or members of the governing body of the entity may also receive remuneration or compensation from the entity for services provided in a capacity other than (a)

as director or member of the governing body of the entity, or (b) as an employee of the entity. Paragraph 34(b)(i) of this Standard requires the disclosure of the total amount of this other remuneration or compensation.

41. Close members of the family of key management personnel may influence, or be influenced by, key management personnel in their transactions with the reporting entity. Paragraph 34(b)(ii) of this Standard requires the disclosure of the total remuneration and compensation provided during the period to close members of the family of key management personnel.

Effective Date

42. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2004. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2004, it shall disclose that fact.**

42A. **Paragraph 43 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

42B. **IPSAS 35, *Consolidated Financial Statements* IPSAS 37, *Joint Arrangements* and IPSAS 38, *Disclosure of Interests in Other Entities*, issued in January 2015, amended paragraphs 4, 15, 24 and 33. An entity shall apply those amendments when it applies IPSAS 35, IPSAS 37, and IPSAS 38.**

42C. **Paragraphs 27 and 32 were amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2017 it shall disclose that fact.**

42D. **Paragraphs 2 and 3 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

42E. **Paragraph 38 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

43. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 20.

Revision of IPSAS 20 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC1. 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 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.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 20.

Disclosure—Government X

The following disclosures are made in the financial statements of Government X.

Controlled Entities (Paragraph 25)

The Government controls the following reporting entities:

Government Departments and Agencies: Education, Welfare, Police, Post, Works and Services, Defense, Justice, Treasury/Finance, Department X, Agency XYZ (identify all departments and agencies).

Commercial Public Sector Entities: Government Electricity Company, Government Telecommunications Company (identify all commercial public sector entities).

(Note: IPSAS 35, requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27)

A member of Cabinet was provided with a house, rent free, in the national Capital City. Houses similar to that provided to the Minister rent for approximately Z currency units per annum. The provision of accommodation is not part of the remuneration package of the Minister, and the Government does not generally provide free accommodation to ministers. However, in this case it was necessary to provide a residence for the Minister in the Capital City.

The partner of another member of Cabinet was provided with a motor vehicle, rent free. Cars similar to that provided normally rent for K currency units per annum. The government does not generally provide motor vehicles, rent free, to the domestic partners of ministers.

Key Management Personnel (Paragraph 34)

Remuneration (Paragraph 34(a))

The key management personnel (as defined by IPSAS 20, Related Party Disclosures) are the members of Cabinet, who together constitute the governing body of Government X. The aggregate remuneration of members of the Cabinet and the number of individuals determined on a full-time equivalent basis receiving remuneration from Government X are:

Aggregate remuneration	X million.
Number of persons	Y persons.

Loans That are not Widely Available (and/or Widely Known) to Persons Outside the Key Management Group (paragraph 34(c))

Amounts of such loans advanced and repaid during the period, and the balances outstanding at the end of the period, are outlined below:

Individual	Advanced	Repaid	Balance
The Honorable ABC	J	K	L
Ms. VSL	M	N	P
The Honorable D	Q	R	Z
The Honorable E	S	T	U

Terms and Conditions

The Honorable ABC, Minister of Transport, received a loan at X% per annum, which is Y% below the market rate. The term of the loan is for Z years.

Ms. VSL, partner of the Minister of Health, received a government loan. The loan is for N years at X% per annum, the current government borrowing rate.

The salary packages of Cabinet Ministers the Honorable D and E allow them to take out a government loan for up to A years at Y% per annum to purchase a car.

Other Remuneration and Compensation Provided to Key Management Personnel and their Close Family Members (paragraph 34(b))

During the reporting period, total compensation of X amount (currency units) was provided to members of the Cabinet for consulting services provided to particular government agencies.

During the reporting period, the government provided total remuneration and compensation of Y amount (currency units) to close family members of key management personnel. This amount consists of the remuneration of government employees who are close members of the family of members of the Cabinet.

Disclosure—Government Agency XYZ

These disclosures are made in the financial statements of Government Agency XYZ, which is a separate reporting entity.

Controlled Entities (Paragraph 25)

The Agency is controlled by Department X. Department X is controlled by Government X.

The Agency controls the Administration Services Unit, which is a commercial public sector entity.

(Note: IPSAS 35, requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27)

The Agency provided a house, rent free, to the Minister. Houses similar to that provided to the Minister rent for approximately Z currency units per annum. The house is not part of the remuneration package of the Minister and, as a matter of operating procedure, government agencies do not provide residential accommodation to ministers. However, Government X advised that the house should be provided on this occasion.

Key Management Personnel (Paragraph 34)

Remuneration (Paragraph 34(a))

The key management personnel (as defined by IPSAS 20) of Agency XYZ are the Minister, the members of the governing body, and the members of the senior management group. The governing body consists of members appointed by Government X; the chief executive officer and the chief financial officer attend meetings of the governing body but are not members of the governing body. The Minister is not remunerated by Agency XYZ. The aggregate remuneration of members of the governing body and the number of members determined on a full-time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration	AX million.
Number of persons	AY persons.

The senior management group consists of the Agency's chief executive officer, the chief financial officer, and the AZ heads of division. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

Aggregate remuneration	AP million.
Number of persons	AQ persons.

Two division heads are on secondment from Department X, and are remunerated by Department X.

Loans That are not Widely Available (and/or Widely Known) to Persons Outside the Key Management Group (paragraph 34(c))

Amounts advanced and repaid during the period and balance outstanding at the end of the period:

Individual	Advanced	Repaid	Balance
The Minister	J	K	L
Mr. G	M	N	P
Ms. H	Q	R	Z

Terms and Conditions

The Minister received a loan of J currency units, at X% per annum, which is Y% below the market rate. The term of the loan is for Z years.

The salary package of senior staff members, Mr. G and Ms. H, allows them to take out a government loan for up to N years at Y% per annum to purchase a car.

Remuneration and Compensation Provided to Close Family Members of Key Management Personnel (paragraph 34(b))

During the reporting period, total remuneration and compensation of F amount (currency units) was provided by the Agency to employees who are close family members of key management personnel.

COMPARISON WITH IAS 24

IPSAS 20 is drawn primarily from IAS 24 (Reformatted 1994). The main differences between IPSAS 20 and IAS 24 are as follows:

- The structure of IPSAS 20 differs substantially from that of IAS 24.
- The exclusion from the scope of IAS 24 of wholly-owned subsidiaries where the parent entity is domiciled in the same country and provides consolidated financial statements in that country has not been adopted in IPSAS 20.
- Commentary that identifies key management personnel in IAS 24 has been included in a formal definition of "key management personnel" in IPSAS 20. The commentary in IAS 24 includes close members of the family; the definition of "key management personnel" in IPSAS 20 does not include close members of the family.
- The definition of "related party" in IPSAS 20 includes related party relationships that are only noted in commentary in IAS 24.
- IPSAS 20 includes a definition of "remuneration of key management personnel." IAS 24 does not include this definition.
- IPSAS 20 contains additional disclosure requirements in relation to (a) the remuneration of key management personnel and their close family members, and (b) certain other transactions between an entity and its key management personnel and their close family members.
- Except for limited disclosures about the remuneration of, and certain other specified transactions with, key management personnel, IPSAS 20 does not require the disclosure of information about transactions between related parties that occur on normal terms and conditions. IAS 24 has more limited exclusions for related party transactions that occur in the course of normal dealings between the parties.
- IPSAS 20 uses different terminology, in certain instances, from IAS 24. The most significant example is the use of the terms "members of the governing body" in IPSAS 20. The equivalent term in IAS 24 is "directors."

IPSAS 21—IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 36 (2004), *Impairment of Assets*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 36 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 21—IMPAIRMENT OF NON-CASH-GENERATING ASSETS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 21, *Impairment of Non-Cash-Generating Assets* was issued in December 2004.

Since then, IPSAS 21 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 26, *Impairment of Cash-Generating Assets* (issued February 2008)

Table of Amended Paragraphs in IPSAS 21

Paragraph Affected	How Affected	Affected By
2	Amended	IPSAS 29 January 2010 IPSAS 31 January 2010 *Impairment of Revalued Assets* July 2016 IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
		IPSAS 44 May 2022 IPSAS 46 May 2023 IPSAS 47 May 2023
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
5	Amended	IPSAS 26 February 2008
6	Amended	IPSAS 26 February 2008 *The Applicability of IPSAS* April 2016
7	Deleted	*Impairment of Revalued Assets* July 2016
8	Amended	IPSAS 44 May 2022 IPSAS 47 May 2023
9	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
10	Amended	IPSAS 46 May 2023
10A	New	IPSAS 46 May 2023
11	Deleted	*Impairment of Revalued Assets* July 2016
12	Amended	*Improvements to IPSAS* November 2010 IPSAS 45 May 2023
13	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015 IPSAS 41 August 2018
14	Amended	IPSAS 26 February 2008 IPSAS 40 January 2017
15	Deleted	*The Applicability of IPSAS* April 2016
16[1]	Amended	IPSAS 26 February 2008
17	New	IPSAS 26 February 2008
18	New	IPSAS 26 February 2008
19	New	IPSAS 26 February 2008
20	New	IPSAS 26 February 2008 *The Applicability of IPSAS* April 2016
20	Amended	*Improvements to IPSAS* November 2010

[1] Subsequent paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
20A	New	IPSAS 40 January 2017
21	Amended	*The Applicability of IPSAS* April 2016
26A	New	IPSAS 31 January 2010
26B	New	IPSAS 31 January 2010
27	Amended	*Improvements to IPSAS* October 2011 IPSAS 44 May 2022
29	Amended	IPSAS 46 May 2023
37	Amended	*Improvements to IPSAS* April 2016
39A	New	IPSAS 31 January 2010
43	Amended	IPSAS 39 July 2016
54	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 45 May 2023
54A	Amended	*Impairment of Revalued Assets* July 2016 *Improvements to IPSAS* January 2020 IPSAS 45 May 2023
69	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 45 May 2023
69A	Amended	*Impairment of Revalued Assets* July 2016 *Improvements to IPSAS* January 2020 IPSAS 45 May 2023
71	Amended	IPSAS 26 February 2008
72	New	IPSAS 26 February 2008
72A	New	IPSAS 26 February 2008
73	Amended	*Impairment of Revalued Assets* July 2016
73A	New	*Improvements to IPSAS* November 2010
73A	Deleted	Editorials April 2012
75	Amended	IPSAS 45 May 2023
80	Deleted	IPSAS 33 January 2015
80A	New	*Improvements to IPSAS* October 2011
81	Deleted	IPSAS 33 January 2015
81A	New	*Impairment of Revalued Assets* July 2016

Paragraph Affected	How Affected	Affected By
82A	New	IPSAS 31 January 2010
82B	New	*Improvements to IPSAS* October 2011
82C	New	IPSAS 33 January 2015
82D	New	IPSAS 37 January 2015 IPSAS 35 January 2015
82E	New	*The Applicability of IPSAS* April 2016
82F	New	*Impairment of Revalued Assets* July 2016
82G	New	IPSAS 39 July 2016
82H	New	IPSAS 40 January 2017
82I	Amended	*COVID-19: Deferral of Effective Dates* November 2020
82J	New	*Improvements to IPSAS* January 2020
82K	New	IPSAS 44 May 2022
82L	New	IPSAS 45 May 2023
82M	New	IPSAS 46 May 2023
82N	New	IPSAS 47 May 2023
83	Amended	IPSAS 33 January 2015

IPSAS 21—IMPAIRMENT OF NON-CASH-GENERATING ASSETS

CONTENTS

International Public Sector Accounting Standard 21, *Impairment of Non-Cash-Generating Assets*, is set out in paragraphs 1–83. All the paragraphs have equal authority. IPSAS 21 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and to ensure that impairment losses are recognized. This Standard also specifies when an entity would reverse an impairment loss, and prescribes disclosures.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except:**

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

   (b) **Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with IPSAS 47, *Revenue*;**

   (c) **Financial assets that are included in the scope of IPSAS 41, *Financial Instruments;***

   (d) **Investment property that is measured using the current value model (see IPSAS 16, *Investment Property);***

   (e) [Deleted]

   (f) [Deleted]

   (fa) **Non-current assets (disposal groups) classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and**

   (g) **Other assets in respect of which accounting requirements for impairment are included in another IPSAS.**

3. [Deleted]

4. [Deleted]

5. **Public sector entities that hold cash-generating assets as defined in paragraph 14, shall apply IPSAS 26, *Impairment of Cash-Generating Assets*, to such assets. Public sector entities that hold non-cash-generating assets shall apply the requirements of this Standard to non-cash-generating assets**.

6. This Standard excludes from its scope the impairment of assets that are dealt with in another IPSAS. Public sector entities apply IPSAS 26 to their cash-generating assets, and apply this Standard to their non-cash-generating assets. Paragraphs 6−13 explain the scope of the Standard in greater detail.

7. [Deleted]

8. This Standard does not apply to inventories, binding arrangement assets, and assets arising from costs to obtain or fulfill a binding arrangement or assets classified as held for sale (or included in a disposal group that is classified as held for sale) because existing IPSAS applicable to these assets contain requirements for recognizing and measuring these assets.

9. This Standard does not apply to financial assets that are included in the scope of IPSAS 28, *Financial Instruments: Presentation*. Impairment of these assets is dealt with in IPSAS 41.

10. This Standard does not require the application of an impairment test to investment property measured at fair value within the scope of IPSAS 16. This is because, under the current value model in IPSAS 16, an investment property is carried at fair value at the reporting date and any impairment will be taken into account in the valuation.

10A. However, this Standard applies to non-cash-generating assets that are carried at revalued amounts (i.e., fair value or current operational value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IPSAS, such as the current value model in IPSAS 45, *Property, Plant, and Equipment* and the revaluation model in IPSAS 31, *Intangible Assets*.

(a) If the disposal costs are negligible, the recoverable service amount of the revalued non-cash-generating asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued non-cash-generating asset is impaired and recoverable service amount need not be estimated.

(b) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued non-cash-generating asset is necessarily less than its fair value. Therefore, the revalued non-cash-generating asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the non-cash-generating asset may be impaired.

11. [Deleted]

12. Consistent with the requirements of paragraph 5 above, items of property, plant, and equipment that are classified as cash-generating assets, including those that are carried at revalued amounts under the current value model in IPSAS 45 are dealt with under IPSAS 26.

13. Investments in:

(a) Controlled entities, as defined in IPSAS 35, *Consolidated Financial Statements*;

(b) Associates, as defined in IPSAS 36, *Investments in Associates and Joint Ventures*; and

(c) Joint arrangements, as defined in IPSAS 37, *Joint Arrangements*;

are financial assets that are excluded from the scope of IPSAS 41. Where such investments are classified as cash-generating assets, they are dealt with under IPSAS 26. Where these assets are non-cash-generating assets, they are dealt with under this Standard.

Definitions

14. **The following terms are used in this Standard with the meanings specified:**

An <u>active market</u> is a market in which all the following conditions exist:

(a) **The items traded within the market are homogeneous;**

(b) **Willing buyers and sellers can normally be found at any time; and**

(c) **Prices are available to the public.**

<u>Cash-generating assets</u> are assets held with the primary objective of generating a commercial return. For the purposes of impairment, goodwill is considered a cash-generating asset.

<u>Costs of disposal</u> are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

<u>Fair value less costs to sell</u> is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An <u>impairment</u> is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Non-cash-generating assets are assets other than cash-generating assets.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

(a) **The period of time over which an asset is expected to be used by the entity; or**

(b) **The number of production or similar units expected to be obtained from the asset by the entity.**

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

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.

Government Business Enterprises

15. [Deleted]

Cash-Generating Assets

16. Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a commercial return indicates that an entity intends to generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return, even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset, even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to an asset or assets in the following paragraphs of this Standard are references to non-cash-generating asset(s).

17. There are a number of circumstances in which public sector entities may hold some assets with the primary objective of generating a commercial return, although the majority of assets are not held for that purpose. For example, a hospital may deploy a building for fee-paying patients. Cash-generating assets of a public sector entity may operate independently of the non-cash-generating assets of the entity. For example, the deeds office may earn land registration fees independently from the department of land affairs.

18. In certain instances, an asset may generate cash flows although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

19. In other instances, an asset may generate cash flows and also be used for non-cash-generating purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or IPSAS 26. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies IPSAS 26 rather than this Standard.

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

20A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. This Standard deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in this Standard includes service potential. Consequently, an entity applies IPSAS 26 rather than this Standard to determine whether to impair goodwill.

21. Assets held by commercial public sector entities are cash-generating assets. Public sector entities may hold assets to generate a commercial return. For the purposes of this Standard, an asset held by a public sector entity is classified as a cash-generating asset if the asset (or unit of which the asset is a part) is operated with the objective of generating a commercial return through the provision of goods and/or services to external parties.

Depreciation

22. Depreciation and amortization are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term amortization is generally used instead of depreciation. Both terms have the same meaning.

Impairment

23. This Standard defines an impairment as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortization). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it. For example, an entity may have a purpose-built military storage facility that it no longer uses. In addition, because of the specialized nature of the facility and its location, it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. The asset is regarded as impaired, as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives.

Identifying an Asset that may be Impaired

24. Paragraphs 26−34 specify when recoverable service amounts would be determined.

25. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraph 27 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.

26. **An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.**

26A. **Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**

26B. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

27. **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

External sources of information

(a) **Cessation, or near cessation, of the demand or need for services provided by the asset;**

(b) **Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;**

Internal sources of information

(c) **Evidence is available of physical damage of an asset;**

(d) **Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite;** [2]

(e) **A decision to halt the construction of the asset before it is complete or in a usable condition; and**

(f) **Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.**

28. The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are utilized in providing those services, but negative fluctuations in demand are not necessarily indications of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired. Demand may be considered to have nearly ceased when it is so low that the entity (a) would not have attempted to respond to that demand, or (b) would have responded by not acquiring the asset being considered for impairment testing.

[2] Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations.*

29. The list in paragraph 27 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset's recoverable service amount. For example, any of the following may be an indication of impairment:

    (a) There are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use; or

    (b) A significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.

30. The events or circumstances that may indicate an impairment of an asset will be significant, and will often have prompted discussion by the governing board, management, or media. A change in a parameter such as demand for the service, extent or manner of use, legal environment, or government policy environment would indicate impairment only if such a change was significant, and had or was anticipated to have a long-term adverse effect. A change in the technological environment may indicate that an asset is obsolete, and requires testing for impairment. A change in the use of an asset during the period may also be an indication of impairment. This may occur when, for example, a building used as a school undergoes a change in use and is used for storage. In assessing whether an impairment has occurred, the entity needs to assess changes in service potential over the long term. This underlines the fact that the changes are seen within the context of the anticipated long-term use of the asset. However, the expectations of long-term use can change, and the entity's assessments at each reporting date would reflect that. The Implementation Guidance sets out examples of impairment indications referred to in paragraph 27.

31. In assessing whether a halt in construction would trigger an impairment test, the entity would consider (a) whether construction has simply been delayed or postponed, (b) whether there is an intention to resume construction in the near future, or (c) whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work-in-progress and is not considered as halted.

32. Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph 27(f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:

    (a) Significantly higher costs of operating or maintaining the asset, compared with those originally budgeted; and

    (b) Significantly lower service or output levels provided by the asset, compared with those originally expected due to poor operating performance.

    A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up. Similarly, a significant increase in maintenance costs may indicate that higher costs need to be incurred to maintain the asset's performance at a level indicated by its most recently assessed standard of performance. In other cases, direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

33. The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 27.

34. If there is an indication that an asset may be impaired, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value for the asset needs to be reviewed and adjusted in accordance with the IPSAS applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring Recoverable Service Amount

35. This Standard defines recoverable service amount as the higher of an asset's fair value, less costs to sell, and its value in use. Paragraphs 36–50 set out the basis for measuring recoverable service amount.

36. It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount.

37. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. Paragraph 42 sets out possible alternative bases for estimating fair value less costs to sell when an active market for the asset does not exist. However, sometimes it will not be possible to determine fair value less costs to sell, because there is no basis for making a reliable[3] estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its recoverable service amount.

38. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable service amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds. However, for many public sector non-cash-generating assets that are held on an ongoing basis to provide specialized services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less costs to sell.

39. In some cases, estimates, averages, and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs to sell or value in use.

Measuring the Recoverable Service Amount of an Intangible Asset with an Indefinite Useful Life

39A. Paragraph 26A requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable service amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

(a) If the intangible asset does not provide service potential from continuing use that is largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;

(b) The most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and

[3] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

(c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.

Fair Value Less Costs to Sell

40. The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

41. If there is no binding sale agreement, but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

42. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management or the governing body is compelled to sell immediately.

43. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in IPSAS 39, *Employee Benefits*,) and costs associated with reducing or reorganizing a business following the disposal of an asset, are not direct incremental costs to dispose of the asset.

Value in Use

44. This Standard defines the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential. Value in use in this Standard refers to value in use of a non-cash-generating asset, unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs 45–49, as appropriate.

Depreciated Replacement Cost Approach

45. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

46. The replacement cost and reproduction cost of an asset are determined on an optimized basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features that are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination

of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

47. In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset.

Restoration Cost Approach

48. Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower. Paragraphs 45 and 47 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service Units Approach

49. Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Application of Approaches

50. The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:

 (a) Impairments identified from significant long-term changes in the technological, legal, or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach, when appropriate;

 (b) Impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near cessation of demand, are generally measurable using a depreciated replacement cost or a service units approach, when appropriate; and

 (c) Impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach, when appropriate.

Recognizing and Measuring an Impairment Loss

51. Paragraphs 52–57 set out the requirements for recognizing and measuring impairment losses for an asset. In this Standard, impairment loss refers to impairment loss of a non-cash-generating asset unless otherwise specified.

52. **If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. That reduction is an impairment loss.**

53. As noted in paragraph 26, this Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a potential impairment loss is present. Paragraphs 27−33 identify key indications that an impairment loss may have occurred.

54. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the current value model in IPSAS 31 and IPSAS 45). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

54A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45.

55. **When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognize a liability if, and only if, that is required by another IPSAS.**

56. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero, with a corresponding amount recognized in surplus or deficit. A liability would be recognized only if another IPSAS so requires. An example is when a purpose-built military installation is no longer used and the entity is required by law to remove such installations if not usable. The entity may need to make a provision for dismantling costs if required by IPSAS 19*, Provisions, Contingent Liabilities and Contingent Assets*.

57. **After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Reversing an Impairment Loss

58. Paragraphs 59–70 set out the requirements for reversing an impairment loss recognized for an asset in prior periods.

59. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.**

60. **In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

(a) **Resurgence of the demand or need for services provided by the asset;**

(b) **Significant long-term changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;**

Internal sources of information

(c) **Significant long-term changes with a favorable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs;**

(d) **A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and**

(e) **Evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.**

61. Indications of a potential decrease in an impairment loss in paragraph 60 mainly mirror the indications of a potential impairment loss in paragraph 27.

62. The list in paragraph 60 is not exhaustive. An entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, either of the following may be an indication that the impairment loss may have reversed:

(a) A significant rise in an asset's market value; or

(b) A significant long-term increase in the demand or need for the services provided by the asset.

63. A commitment to discontinue or restructure an operation in the near future is an indication of a reversal of an impairment loss of an asset belonging to the operation, where such a commitment constitutes a significant long-term change, with a favorable effect on the entity, in the extent or manner of use of that asset. Circumstances where such a commitment would be an indication of reversal of impairment often relate to cases where the expected discontinuance or restructuring of the operation would create opportunities to enhance the utilization of the asset. An example is an x-ray machine that has been underutilized by a clinic managed by a public hospital and, as a result of restructuring, is expected to be transferred to the main radiology department of the hospital where it will have significantly better utilization. In such a case, the commitment to discontinue or restructure the clinic's operation may be an indication that an impairment loss recognized for the asset in prior periods may have to be reversed.

64. If there is an indication that an impairment loss recognized for an asset may no longer exist or may have decreased, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value may need to be reviewed and adjusted in accordance with the IPSAS applicable to the asset, even if no impairment loss is reversed for the asset.

65. **An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 68, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.**

66. This Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a reversal of an impairment loss is present. Paragraph 60 identifies key indications that an impairment loss recognized for an asset in prior periods may no longer exist or may have decreased.

67. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. Paragraph 77 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

(a) A change in the basis for recoverable service amount (i.e., whether recoverable service amount is based on fair value less costs to sell or value in use);

(b) If recoverable service amount was based on value in use, a change in estimate of the components of value in use; or

(c) If recoverable service amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.

68. **The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized for the asset in prior periods.**

69. **A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the current value model in IPSAS 31 and IPSAS 45). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

69A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or IPSAS 45.

70. **After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Redesignation of Assets

71. **The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets shall only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the listed indications applicable to the asset after redesignation.**

72. There are circumstances in which public sector entities may decide that it is appropriate to redesignate a non-cash-generating asset as a cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from a social housing unit, for which no charge is made. The social housing unit has been demolished, and the site will be developed for industrial and retail purposes. It is intended that, in future, the plant will be used to treat industrial effluent at commercial rates. In light of this decision, the public sector entity decides to redesignate the effluent treatment plant as a cash-generating asset.

Disclosure

72A. **An entity shall disclose the criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets.**

73. **An entity shall disclose the following for each class of assets:**

(a) **The amount of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included; and**

(b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed;**

(c) **The amount of impairment losses on revalued assets recognized directly in revaluation surplus during the period; and**

(d) **The amount of reversals of impairment losses on revalued assets recognized directly in revaluation surplus during the period.**

73A. [Deleted]

74. A class of assets is a grouping of assets of similar nature and use in an entity's operations.

75. The information required in paragraph 73 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment, at the beginning and end of the period, as required by IPSAS 45.

76. **An entity that reports segment information in accordance with IPSAS 18, *Segment Reporting,* shall disclose the following for each segment reported by the entity:**

(a) **The amount of impairment losses recognized in surplus or deficit during the period; and**

(b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period.**

77. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period:**

(a) **The events and circumstances that led to the recognition or reversal of the impairment loss;**

(b) **The amount of the impairment loss recognized or reversed;**

(c) **The nature of the asset;**

(d) **The segment to which the asset belongs, if the entity reports segment information in accordance with IPSAS 18;**

(e) **Whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use;**

(f) **If the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market); and**

(g) **If the recoverable service amount is value in use, the approach used to determine value in use.**

78. **An entity shall disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognized during the period for which no information is disclosed in accordance with paragraph 77:**

(a) **The main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses); and**

(b) **The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**

79. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.

Transitional Provisions

80. [Deleted]

80A. **The amendment to paragraph 27 shall be applied prospectively from the date of its application.**

81. [Deleted]

81A. Paragraphs 2, 54, 69 and 73 were amended, paragraphs 7 and 11 were deleted, and paragraphs 54A and 69A were added by *Impairment of Revalued Assets* (Amendments to IPSAS 21 and 26) in July 2016. Those amendments shall be applied prospectively from the date of their application.

Effective Date

82. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2006. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2006, it shall disclose that fact.**

82A. **IPSAS 31 amended paragraphs 2 and 7, and inserted paragraphs 26A, 26B, and 39A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 31 for a period beginning before April 1, 2011, the amendments shall also be applied for that earlier period.**

82B. **Paragraph 27 was amended by *Improvements to IPSAS 2011* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**

82C. **Paragraphs 80, 81 and 83 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

82D. **IPSAS 35, *Consolidated Financial Statements,* and IPSAS 37, *Joint Arrangements* issued in January 2015, amended paragraph 13. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

82E. **Paragraphs 3, 4 and 15 were deleted and paragraphs 6, 20 and 21 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

82F. ***Impairment of Revalued Assets* (Amendments to IPSAS 21 and 26) amended paragraphs 2, 54, 69 and 73, deleted paragraphs 7 and 11, and added paragraphs 54A, 69A and 81A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies those amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

82G. **Paragraph 43 was amended by IPSAS 39, *Employee Benefits,* issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

82H. **Paragraph 14 was amended and paragraph 20A added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

82I. **Paragraphs 2, 9 and 13 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

82J. **Paragraphs 54A and 69A were amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

82K. **Paragraphs 2, 8 and 27 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

82L. **Paragraphs 12, 54, 54A, 69, 69A, and 75 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

82M. **Paragraphs 2, 10 and 29 were amended and paragraph 10A was added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

82N. **Paragraphs 2 and 8 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

83. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 21.

Introduction

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. The accrual IPSAS are based on the IFRS issued by the IASB, to the extent that the requirements of those Standards are applicable to the public sector. The requirements of this Standard have been developed consistent with that policy. IAS 36 requires entities to determine the recoverable amount of an asset if there are indications that the asset is impaired. The recoverable amount of an asset is defined as the higher of value in use and fair value less costs to sell of the asset. This Standard includes a similar definition.

BC3. IAS 36 applies to cash-generating assets and cash-generating units, while this Standard applies to individual non-cash-generating assets. This results in a number of differences between the two standards. The main differences are:

(a) The method of measurement of value in use of a non-cash-generating asset under this Standard is different from that applied to a cash-generating asset under IAS 36;

(b) This Standard does not require entities to apply an impairment test to property, plant, and equipment carried at revalued amounts; and

(c) This Standard does not include a decrease in market value significantly greater than would be expected as a result of the passage of time or normal use as a minimum indication of impairment. This indication is included as an additional indication that impairment may exist.

The IPSASB's reasons for making these departures from the requirements of IAS 36 are explained in the paragraphs below.

BC4. An Invitation to Comment (ITC), *Impairment of Assets*, issued in 2000 proposed an approach to accounting for impairment of the assets of public sector entities that applied IAS 36 to the extent that it was appropriate. ED 23, *Impairment of Assets*, was developed after consideration of responses to the ITC and issued in 2003. This Standard was developed after consideration of the responses to ED 23.

Cash-Generating Assets

BC5. IAS 36 requires an entity to determine value in use as the present value of estimated future cash flows expected to be derived (a) from the continuing use of the asset, or cash-generating unit, and (b) from its disposal at the end of its useful life. The service potential of cash-generating assets is reflected by their ability to generate future cash flows. IPSAS 26 is based on IAS 36. The requirements of IPSAS 26 are applicable to cash-generating assets held by public sector entities. This Standard requires entities to apply IPSAS 26 to account for impairment of cash-generating assets in the public sector.

BC5A. IPSAS 40, *Public Sector Combinations*, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The

IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

Non-Cash-Generating Assets

BC6. In considering the principles underpinning a value in use concept applicable to non-cash-generating assets, the IPSASB agreed that the value in use of a non-cash-generating asset should be measured by reference to the present value of the remaining service potential of the asset. This replicates the approach taken by IAS 36.

Determination of Value in Use

BC7. Determining value in use (present value of remaining service potential) of a non-cash-generating asset may be approached in a number of ways. One approach that replicates IAS 36 involves estimating and discounting cash inflows that would have arisen had the entity sold its services or other outputs in the market. However, the IPSASB is of the view that it is unlikely that this approach could be used in practice, due to the complexities involved in determining the appropriate prices at which to value the service or other output units and estimating the appropriate discount rate.

BC8. Other approaches reflect an implicit determination of value in use. In this respect, the IPSASB considered the market value approach, and approaches that measure depreciated replacement cost, and include consideration of restoration cost and service units.

Market value approach

BC9. Under this approach, where an active market exists for the asset, the value in use of the non-cash-generating asset is measured at the observable market value of the asset. Where an active market for the asset is not available, the entity uses the best available market evidence of the price at which the asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction, having regard to the highest and best use of the asset for which market participants would be prepared to pay in the prevailing circumstances. The IPSASB noted that the use of the observable market value as a proxy for value in use was redundant, since market value differed from the fair value less costs to sell (the other arm of the recoverable service amount estimate) of the asset only by the amount of the costs of disposal. Therefore the market value would be effectively captured by the fair value less costs to sell arm of recoverable service amount.

Depreciated replacement cost approach

BC10. Under this approach, the value in use of the asset is determined as the lowest cost at which the gross service potential embodied in the asset could be obtained in the normal course of operations, less the value of the service potential already consumed. This approach assumes that the entity replaces the remaining service potential of the asset if it is deprived of it. An asset may be replaced either through reproduction (such as specialized assets) or through replacement of its gross service potential. Therefore, value in use is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired service potential of the asset.

Restoration cost approach

BC11. This approach is usually used when impairment losses arise from damage. Under this approach, the value in use of the asset is determined by subtracting the estimated restoration cost of the asset from the depreciated replacement or reproduction cost of the asset before impairment.

Service units approach

BC12. This approach determines the value in use of the asset by reducing the depreciated replacement or reproduction cost of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state.

Approaches adopted

BC13. The IPSASB agreed that the value in use of a non-cash-generating asset will be measured using the depreciated replacement cost, the restoration cost, or the service units approaches cited above as appropriate.

Other Assets

BC14. IPSAS 21 contains specific requirements for testing intangible assets for impairment, and for recognizing and measuring impairment losses related to intangible assets. These requirements complement the requirements of IPSAS 31, *Intangible Assets*. Non-cash-generating intangible assets measured at cost are included in the scope of this Standard and should be tested for impairment according to the requirements of this Standard.

Group of Assets and Corporate Assets

BC15. Under IAS 36, where it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount for the asset's cash-generating unit (CGU) will be determined. The CGU is the smallest identifiable group of assets (a) that generates cash inflows from continuing use, and (b) that is largely independent of the cash inflows from other assets or groups of assets. The IPSASB considered the concept of a service-generating unit in a non-cash-generating context. It noted that as the requirements in this Standard are applied to individual assets, the adoption of such a concept by analogy to the CGU concept in IAS 36 is unnecessary, because it is possible to identify the service potential of individual assets. Moreover, its adoption would introduce undue complexities in accounting for impairment of non-cash-generating assets.

BC16. Under IAS 36, assets other than goodwill that contribute to the future cash flows of two or more CGUs are regarded as corporate assets. In a cash-generating context, because corporate assets do not generate separate cash inflows, the impairment of corporate assets are dealt with as part of the impairment of the cash-generating unit to which the corporate assets belong. The IPSASB observed that in a non-cash-generating context, the concept of a service-generating unit is not warranted, as noted in paragraph BC15 above. The IPSASB further noted that such assets are often an integral part of the service delivery function and their impairment is to be dealt with as for any other non-cash-generating assets of the entity.

Property, Plant, and Equipment and Intangible Assets

BC17. When this Standard was issued in December 2004, it did not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the revaluation model in IPSAS 17 and IPSAS 31. The IPSASB was then of the view that under the revaluation model in IPSAS 17 and IPSAS 31, assets would be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date, and any impairment would be taken into account in the valuation. Therefore, any difference between the asset's carrying amount and its fair value less costs to sell would be the disposal costs. The IPSASB was then of the view that, in most cases, these would not be material and, from a practical viewpoint, it was not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

BC18. In contrast to this Standard, IAS 36 requires entities to test revalued assets for impairment after they have been revalued. The rationale for this difference was explained by reference to the factors set out in paragraphs BC19 and BC20 below.

BC19. Firstly, there are different methods of determining recoverable service amount under this Standard, and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset's fair value less costs of disposal and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches were also adopted to measure fair value under IPSAS 31 and IPSAS 45 and therefore the value in use was a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs of disposal and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.

BC19A. 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, with guidance on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the restoration cost approach and the service units approach were appropriate to estimate fair value. The IPSASB noted that the alternatives included in IPSAS 17 and IPSAS 31 are inconsistent with measurement techniques available in IPSAS 46 to measure fair value. The IPSASB agreed to update the definition of fair value in IPSAS 31 to align with IPSAS 46, and replaced IPSAS 17 with IPSAS 45, *Property, Plant, and Equipment*.

BC20. Secondly, the requirement under IAS 36 to combine non-cash-generating assets with cash-generating assets to form a cash-generating unit is not replicated in this Standard. Under IAS 36, where an asset does not produce cash inflows, it is combined with other assets to form a cash-generating unit, the value in use of which is then measured. The sum of the fair values of the assets that make up a cash-generating unit may be different to the value in use of the cash-generating unit.

***Impairment of Revalued Assets* (Amendments to IPSAS 21 and IPSAS 26)**

BC20A. As a consequence of requests from jurisdictions that apply IPSAS, in 2015 the IPSASB revisited the original decision to exclude revalued property, plant, and equipment and intangible assets from the scope of IPSAS 21.

BC20B. When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC19 and BC20 for the different requirements in IPSAS 21 and IAS 36 remained sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31. In developing IPSAS 45, the IPSASB concluded that the same impairment principles should apply when revaluing assets to current operational value, as required by paragraph 27 of IPSAS 45.

BC20C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they are accounted for in a similar manner. Paragraph 51 of IPSAS 17 had required an entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

BC20D. The IPSASB also considered it important that users are provided with the quantitative and qualitative information on impairments specified in paragraphs 77 and 78 of IPSAS 21.

BC20E. The IPSASB's objective in clarifying the ambiguity, was to ensure that impairment losses and reversals of impairment losses of a revalued asset did not require an entity to revalue the entire class of assets to which that item belongs in order to recognize an impairment loss in respect of that item.

BC20F. Although including property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 means that an entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 will not be overly onerous for the preparers of financial statements.

BC20G. As a result of these considerations the IPSASB approved ED 57*, Impairment of Revalued Assets*, in September 2015 and published the ED the following month.

Responses to ED 57

BC20H. The majority of the respondents to ED 57 had supported the proposals and the IPSASB's rationale. When this Standard was issued, the IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17. In developing IPSAS 45, the IPSASB concluded that the same statement should be retained.

BC20I. The IPSASB acknowledged this view but considered it inappropriate for two reasons. Firstly, such an approach did not sufficiently address the different methods of determining value in use for non-cash generating assets when evaluating an asset's recoverable service amount. Such methods are the depreciated replacement cost approach, the restoration cost approach and the service-units approach. Secondly, the approach does not provide the information needed for accountability and decision-making purposes by users that is provided by the disclosures in IPSAS 21 and IPSAS 26. The IPSASB therefore decided to effect the proposals in ED 57 in a final pronouncement.

BC20J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they were conceptually the same. However, there was a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference was reflected in the statement in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

Impairment of Non-Cash-Generating Assets Held by GBEs

BC21. When this Standard was issued, this Standard required that the impairment of all assets held by [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) be accounted for under IAS 36. When this Standard was issued GBEs were profit-oriented entities, and the assets employed by them were primarily cash-generating assets. When this Standard was issued, the *Preface to International Public Sector Accounting Standards* made it clear that GBEs were profit-oriented entities, and were therefore required to comply with IFRS and IAS. When this Standard was issued, individual IPSAS made it explicit that IFRS apply to GBEs. Accordingly, non-cash-generating assets were expected to be appropriately grouped with cash-generating assets of GBEs to form a cash-generating unit to be tested for impairment in accordance with IAS 36.

Indications of Impairment—Changes in Market Value

BC22. IAS 36 includes as a minimum indication of impairment that an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use. The IPSASB has included this as an additional indication of impairment, but not as a minimum indication of impairment. The IPSASB is of the view that these changes in market value do not necessarily indicate that a non-cash-generating asset is impaired. This is because non-cash-generating assets are held for reasons other than generating a commercial return; therefore, a change in market value may not reflect a change in the amount of service that the entity will recover from continued use of the asset.

Reversal of Impairment

BC23. Paragraph 60(a) includes resurgence of demand or need for services provided by the asset as a minimum indication of reversal of impairment, while paragraph 62(b) includes a significant long-term increase in demand or need for the services provided by the asset as an additional indication of possible reversal of impairment. The wording of these two indications is similar; however, they can be distinguished from each other because paragraph 60(a) refers to a resurgence of the demand that had declined and resulted in the recognition of an impairment loss. Paragraph 62(b) refers to new demand, and may be unrelated to the reason an impairment loss was recognized in respect of the asset.

BC24. Paragraph 62(a) includes a significant rise in an asset's market value as an additional indication of reversal of impairment. This does not mirror the indication of impairment in paragraph 29(a), which requires that the decline in market value be significantly more than would be expected as a result of the passage of time or normal use. This difference means that the increase in market value may be expected or unexpected.

BC25. Paragraph 27(c) includes "Evidence is available of physical damage of an asset" as a minimum indication of impairment. Paragraph 60 does not include an indication of reversal of impairment that mirrors this indication of impairment. When this Standard was issued, the IPSASB had not included repair of an asset as an indication of reversal, because IPSAS 17 required entities to add subsequent expenditure to the carrying amount of an item of property, plant, and equipment when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained. This requirement also applied to investment property that was measured using the historical cost model under IPSAS 16. The IPSASB is of the view that these requirements negate the need for an indication of reversal of impairment that mirrors the physical damage indication of impairment. The IPSASB also noted that restoration or repair of damage does not constitute a change in the estimate of the asset's recoverable service amount after impairment as specified by paragraph 65 of this IPSAS. In developing IPSAS 45, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the cost model in IPSAS 17 is labeled the historical cost model in IPSAS 45 and that label consequentially applies in IPSAS 16.

Revision of IPSAS 21 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC26. 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 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 21 as a result of *Improvements to IPSAS, 2019*

BC27. When this Standard was issued, the reference to "class of assets" in paragraphs 54A and 69A had created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17, Property, *Plant and Equipment. Stakeholders* raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31 and class of assets in the scope of IPSAS 17. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

Revision of IPSAS 21 as a result of IPSAS 46, *Measurement*

BC28. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed the concept of fair value should be retained in IPSAS 21, independent of the revised definition of fair value proposed in IPSAS 46. The IPSASB agreed any changes to the concept of fair value in IPSAS 21 should be considered as part of an IPSAS 21 specific project and in the context of estimating impairment more broadly.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 21.

Indications of Impairment (paragraph 27)

External Sources of Information

Cessation, or Near Cessation, of the Demand or Need for Services Provided by the Asset.

IG1. The asset still maintains the same service potential, but demand for that service has ceased or nearly ceased. Examples of assets impaired in this manner include:

(a) A school closed because of a lack of demand for school services, arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future;

(b) A school designed for 1,500 students currently has an enrollment of 150 students – the school cannot be closed because the nearest alternative school is 100 kilometers away. The entity does not envisage the enrollment increasing. At the time of establishment, enrollment was 1,400 students – the entity would have acquired a much smaller facility had future enrollment been envisaged to be 150 students. The entity determines that demand has nearly ceased, and the recoverable service amount of the school should be compared with its carrying amount;

(c) A railway line closed due to lack of patronage (for example, the population in a rural area has substantially moved to the city due to successive years of drought, and those that have stayed behind use the cheaper bus service); and

(d) A stadium whose principal occupant does not renew its occupancy agreement, with the result that the facility is expected to close.

Significant Long-Term Changes with an Adverse Effect on the Entity in the Technological, Legal, or Government Policy Environment in Which the Entity Operates.

Technological Environment

IG2. The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. Examples of assets impaired in this manner are:

(a) Medical diagnostic equipment that is rarely or never used because a newer machine embodying more advanced technology provides more accurate results (would also meet indication (a) above);

(b) Software that is no longer being supported by the external supplier because of technological advances, and the entity does not have the personnel to maintain the software; and

(c) Computer hardware that has become obsolete as the result of technological development.

Legal or Government Policy Environment

IG3. An asset's service potential may be reduced as a result of a change in a law or regulation. Examples of impairments identified by this indication include:

(a) An automobile that does not meet new emission standards or an airplane that does not meet new noise standards;

(b) A school that can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exits; and

(c) A drinking water plant that cannot be used because it does not meet new environmental standards.

Internal Sources of Information

Evidence is Available of Physical Damage of an Asset.

IG4. Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide. Examples of assets impaired in this way include:

(a) A building damaged by fire or flood or other factors;

(b) A building that is closed due to identification of structural deficiencies;

(c) Sections of an elevated roadway that have sagged, indicating that these sections of roadway will need to be replaced in 15 years rather than the original design life of 30 years;

(d) A dam whose spillway has been reduced as a result of a structural assessment;

(e) A water treatment plant whose capacity has been reduced by an intake blockage, and the removal of the blockage is not economical;

(f) A bridge that is weight-restricted due to identification of structural deficiencies;

(g) A navy destroyer damaged in a collision; and

(h) Equipment that is damaged and can no longer be repaired, or for which repairs are not economically feasible.

Significant Long-Term Changes, with an Adverse Effect on the Entity, in the Extent to Which an Asset is Used, or is Expected to be Used.

IG5. The asset still maintains the same service potential, but long-term changes have an adverse effect on the extent to which the asset is used. Examples of circumstances in which assets may be impaired in this manner include:

(a) If an asset is not being used to the same degree as it was when originally put into service, or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. An example of an asset that might be identified as potentially being impaired by this indication is a mainframe computer that is underutilized, because many applications have been converted or developed to operate on servers or PC platforms. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used; and

(b) If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indication is a school building that is being used for storage rather than for educational purposes.

A decision to Halt the Construction of the Asset Before it is Complete or in a Usable Condition.

IG6. An asset that will not be completed cannot provide the service intended. Examples of assets impaired in this manner include those where:

(a) Construction was stopped due to identification of an archaeological discovery or environmental condition, such as a nesting ground for a threatened or endangered species; or

(b) Construction was stopped due to a decline in the economy.

The circumstances that led to the halting of construction will also be considered. If construction is deferred, that is, postponed to a specific future date, the project could still be treated as work-in-progress, and is not considered as halted.

Evidence is Available from Internal Reporting that Indicates that the Service Performance of an Asset is, or will be, Significantly Worse than Expected.

IG7. Internal reports may indicate that an asset is not performing as expected, or its performance is deteriorating over time. For example, an internal health department report on operations of a rural clinic may indicate that an x-ray machine used by the clinic is impaired because the cost of maintaining the machine has significantly exceeded that originally budgeted.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 21.

Measurement of Impairment Loss

Note: In the following examples, it is assumed that the fair value less costs to sell of the asset tested for impairment is less than its value in use or is not determinable, unless otherwise indicated. Therefore, the asset's recoverable service amount is equal to its value in use. In these examples, the straight-line method of depreciation is used.

Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Technological Environment—Underutilized Mainframe Computer

IE1. In 1999, the City of Kermann purchased a new mainframe computer at a cost of CU10 million. Kermann estimated that the useful life of the computer would be seven years, and that on average 80 percent of central processing unit (CPU) capacity would be used by the various departments. A buffer of excess CPU time of 20 percent was expected and needed to accommodate scheduling jobs to meet peak period deadlines. Within a few months after acquisition, CPU usage reached 80 percent, but declined to 20 percent in 2003 because many applications of the departments were converted to run on desktop computers or servers. A computer is available on the market at a price of CU500,000 that can provide the remaining service potential of the mainframe computer using the remaining applications.

Evaluation of Impairment

IE2. The indication of impairment is the significant long-term change in the technological environment resulting in conversion of applications from the mainframe to other platforms, and therefore decreased usage of the mainframe computer. (Alternatively it can be argued that a significant decline in the extent of use of the mainframe indicates impairment.) Impairment loss is determined using the depreciated replacement cost approach as follows:

a	**Acquisition cost, 1999**	**10,000,000**
	Accumulated depreciation, 2003 (a × 4 ÷ 7)	**5,714,286**
b	**Carrying amount, 2003**	**4,285,714**
c	**Replacement cost**	**500,000**
	Accumulated depreciation (c × 4 ÷ 7)	**285,714**
d	**Recoverable Service Amount**	**214,286**
	Impairment loss (b - d)	**4,071,428**

Near Cessation in Demand for the Services Provided by a Non-cash-Generating Asset—Underutilized Mainframe Software Application

IE3. In 1999, the City of Kermann purchased a software license for an application for its new mainframe computer for CU350,000. Kermann estimated that the useful life of the software would be seven years, and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software. By 2003, usage of the application had declined to 15 percent of its originally anticipated demand. A license for a software application to replace the remaining service potential of the impaired software application costs CU70,000.

Evaluation of Impairment

IE4. The indication of impairment is technological change, brought about by the loss of mainframe computer capacity.

a	**Acquisition cost, 1999**	**350,000**
	Accumulated depreciation, 2003 (a × 4 ÷ 7)	**200,000**
b	**Carrying amount, 2003**	**150,000**
c	**Replacement cost**	**70,000**
	Accumulated amortization (c × 4 ÷ 7)	**40,000**
d	**Recoverable Service Amount**	**30,000**
	Impairment loss (b - d)	**120,000**

Significant Long-term Change with Adverse Effect on the Entity in the Manner of Use—School Used as Warehouse

IE5. In 1997, Lunden School District constructed an elementary school at a cost of CU10 million. The estimated useful life of the school is fifty years. In 2003, the school is closed because enrollments in the district declined unexpectedly due to a population shift caused by the bankruptcy of a major employer in the area. The school is converted to use as a storage warehouse, and Lunden School District has no expectation that enrollments will increase in the future such that the building would be reopened for use as a school. The current replacement cost for a warehouse with the same storage capacity as the school is CU4.2 million.

Evaluation of Impairment

IE6. Impairment is indicated, because the purpose for which the building is used has changed significantly from a place for instructing students to a storage facility, and this is not anticipated to change for the foreseeable future. An impairment loss using depreciated replacement cost approach would be determined as follows:

a	**Historical cost, 1997**	**10,000,000**
	Accumulated depreciation, 2003 (a × 6 ÷ 50)	**1,200,000**
b	**Carrying amount, 2003**	**8,800,000**
c	**Replacement cost of a storage facility of similar capacity**	**4,200,000**
	Accumulated depreciation (c × 6 ÷ 50)	**504,000**
d	**Recoverable Service Amount**	**3,696,000**
	Impairment loss (b - d)	**5,104,000**

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use—School Partially Closed Due to Decline in Enrollment

IE7. In 1983, the Lutton School District constructed a school at the cost of CU2.5 million. The entity estimated the school would be used for 40 years. In 2003, the enrollment declined from 1000 to 200 students as the result of population shift caused by the bankruptcy of a major employer in the area. The management decided to close the top two floors of the three-story school building. Lutton School District has no expectation that enrollments will increase in the future such that the upper stories would be reopened. The current replacement cost of the one-story school is estimated at CU1.3 million.

Evaluation of Impairment

IE8. Impairment is indicated because the extent of use of the school has changed from three floors to one floor as the result of a reduction in the number of students from 1000 to 200 students. The reduction in the extent of use is significant, and the enrollment is expected to remain at the reduced level for the foreseeable future. Impairment loss using a depreciated replacement cost approach would be determined as follows:

a	**Acquisition cost, 1983**	**2,500,000**
	Accumulated depreciation, 2003 (a × 20 ÷ 40)	**1,250,000**
b	**Carrying amount, 2003**	**1,250,000**
c	**Replacement cost**	**1,300,000**
	Accumulated depreciation (c × 20 ÷ 40)	**650,000**
d	**Recoverable Service Amount**	**650,000**
	Impairment loss (b - d)	**600,000**

Restoration Cost Approach

Physical Damage—School Bus Damaged in Road

IE9. In 1998, North District Primary School acquired a bus at the cost of CU200,000 to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 2003, the bus sustained damage in a road accident, requiring CU40,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is CU250,000 in 2003.

Evaluation of Impairment

IE10. Impairment is indicated because the bus has sustained physical damage in the road accident. Impairment loss using the restoration cost approach would be determined as follows:

a	**Acquisition cost, 1998**	**200,000**
	Accumulated depreciation, 2003 (a × 5 ÷ 10)	**100,000**
b	**Carrying amount, 2003**	**100,000**
c	**Replacement cost**	**250,000**
	Accumulated depreciation (c × 5 ÷ 10)	**125,000**
d	**Depreciated replacement cost (undamaged state)**	**125,000**
	Less: restoration cost	**40,000**
e	**Recoverable Service Amount**	**85,000**
	Impairment loss (b - e)	**15,000**

Physical Damage—Building damaged by fire

IE11. In 1984, the City of Moorland built an office building at a cost of CU50 million. The building was expected to provide service for 40 years. In 2003, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed, and structural repairs costing CU35.5 million are to be made to restore the office building to an occupiable condition. The replacement cost of a new office building is CU100 million.

Evaluation of Impairment

IE12. Impairment is indicated because the office building has sustained physical damage due to the fire. Impairment loss using a restoration cost approach would be determined as follows:

a	**Acquisition cost, 1984**	**50,000,000**
	Accumulated depreciation, 2003 (a × 19 ÷ 40)	**23,750,000**
b	**Carrying amount, 2003**	**26,250,000**
c	**Replacement cost (of a new building)**	**100,000,000**
d	**Accumulated depreciation (c × 19 ÷ 40)**	**47,500,000**
	Depreciated replacement cost (undamaged)	**52,500,000**
	Less: restoration cost	**35,500,000**
e	**Recoverable Service Amount**	**17,000,000**
	Impairment loss (b - e)	**9,250,000**

Service Units Approach

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use—High-rise Building Partially Unoccupied for the Foreseeable Future

IE13. In 1988, Ornong City Council constructed a 20-story office building for use by the Council in downtown Ornong at the cost of CU80 million. The building was expected to have a useful life of 40 years. In 2003, National Safety Regulations required that the top four stories of high rise buildings should be left unoccupied for the foreseeable future. The building has a fair value less costs to sell of CU45 million in 2003 after regulations came into force. The current replacement cost of a similar 20-story building is CU85 million.

Evaluation of Impairment

IE14. Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new National Safety Regulations. The reduction in the extent of use is significant, and the occupation of the building is expected to remain at the reduced level (16 floors) for the foreseeable future. Impairment loss using the service units approach would be determined as follows:

a	**Acquisition cost, 1988**	**80,000,000**
	Accumulated depreciation, 2003 (a × 15 ÷ 40)	**30,000,000**
b	**Carrying amount, 2003**	**50,000,000**

c	**Replacement cost (20-story building)**	**85,000,000**
	Accumulated depreciation (c × 15 ÷ 40)	**31,875,000**
d	**Depreciated replacement cost before adjustment for remaining service units**	**53,125,000**
e	**Value in Use of the building after the regulation came into force (d × 16 ÷ 20)**	**42,500,000**
f	**Fair value less costs to sell of the building after regulation came into force**	**45,000,000**
g	**Recoverable service amount (higher of e and f)**	**45,000,000**
	Impairment loss (b - g)	**5,000,000**

Evidence from Internal Reporting—Higher Cost of Operating the Printing Machine

IE15. In 1998, Country X Education Department purchased a new printing machine at a cost of CU40 million. The Department estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 2003, it was reported that an automated feature of the machine's function does not operate as expected, resulting in a 25 percent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is CU45 million in 2003.

Evaluation of Impairment

IE16. Impairment is indicated by evidence from internal reporting that the service performance of the printing machine is worse than expected. Circumstances suggest that the decline in the service potential of the asset is significant and of a long-term nature. Impairment loss using a service units approach is determined as follows:

a	**Acquisition cost, 1998**	**40,000,000**
	Accumulated depreciation (a × 5 ÷ 10)	**20,000,000**
b	**Carrying amount, 2003**	**20,000,000**
c	**Replacement cost**	**45,000,000**
	Accumulated depreciation (c × 5 ÷ 10)	**22,500,000**
d	**Depreciated replacement cost before adjustment for remaining service units**	**22,500,000**
e	**Recoverable Service Amount (d × 75%)**	**16,875,000**
	Impairment loss (b - e)	**3,125,000**

COMPARISON WITH IAS 36 (2004)

IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 (2004) are as follows:

- IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities, while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS 26 deals with the impairment of cash-generating assets of public sector entities.
- The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.
- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.
- The scope of IAS 36 excludes certain classes of assets that are not excluded from the scope of IPSAS 21. These exclusions relate to classes of assets that are the subject of specific impairment requirements under other IFRS. These have not been excluded from IPSAS 21 because there are not equivalent IPSAS. These exclusions include (a) biological assets related to agricultural activity, (b) deferred tax assets, (c) deferred acquisition costs, and (d) intangible assets arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4, *Insurance Contracts*.
- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- IPSAS 21 deals with corporate assets in the same manner as other non-cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.
- IPSAS 21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue," "recoverable service amount", and "statement of financial performance," in IPSAS 21. The equivalent terms in IAS 36 are "income," "recoverable amount," and "income statement."

IPSAS 22—DISCLOSURE OF FINANCIAL INFORMATION ABOUT THE GENERAL GOVERNMENT SECTOR

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 22, *Disclosure of Financial Information about the General Government Sector* was issued in December 2006.

Since then, IPSAS 22 has been amended by the following IPSAS:

- IPSAS 46, *Measurement* (issued May 2023)
- *Improvements to IPSAS 2021* (issued January 2022)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 22

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Amended	*The Applicability of IPSAS* April 2016
5	Amended	*Improvements to IPSAS* January 2022
13	Amended	*Improvements to IPSAS* April 2016
16	Deleted	*The Applicability of IPSAS* April 2016
18	Amended	*Improvements to IPSAS* January 2022
22	Amended	*The Applicability of IPSAS* April 2016
24	Amended	IPSAS 35 January 2015
26	Amended	IPSAS 35 January 2015
27	Amended	IPSAS 35 January 2015
28	Amended	*Improvements to IPSAS* January 2022
29	Amended	IPSAS 35 January 2015
30	Amended	IPSAS 35 January 2015
32	Amended	IPSAS 46 May 2023
37	Amended	*Improvements to IPSAS* October 2018

Paragraph Affected	How Affected	Affected By
41	Amended	IPSAS 35 January 2015
47A	New	IPSAS 33 January 2015
47B	New	IPSAS 35 January 2015
47C	New	*Improvements to IPSAS* April 2016
47D	New	*The Applicability of IPSAS* April 2016
47E	New	*Improvements to IPSAS* October 2018
47F	New	*Improvements to IPSAS* January 2022
47G	New	IPSAS 46 May 2023
48	Amended	IPSAS 33 January 2015

December 2006

IPSAS 22—DISCLOSURE OF FINANCIAL INFORMATION ABOUT THE GENERAL GOVERNMENT SECTOR

CONTENTS

International Public Sector Accounting Standard 22, *Disclosure of Financial Information about the General Government Sector*, is set out in paragraphs 1–48. All the paragraphs have equal authority. IPSAS 22 should be read in the context of its objective, the Basis for Conclusions, the *Preface to the International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe disclosure requirements for governments that elect to present information about the general government sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and non-market activities of the government, and between financial statements and statistical bases of financial reporting.

Scope

2. **A government that prepares and presents consolidated financial statements under the accrual basis of accounting and elects to disclose financial information about the general government sector shall do so in accordance with the requirements of this Standard.**

3. Governments raise funds from taxes, transfers, and a range of nonmarket and market activities to fund their service delivery activities. They operate through a variety of entities to provide goods and services to their constituents. Some entities rely primarily on appropriations or allocations from taxes or other government revenues to fund their service delivery activities, but may also undertake additional revenue-generating activities, including commercial activities in some cases. Other entities may generate their funds primarily or substantially from commercial activities.

4. Financial statements for a government prepared in accordance with IPSAS provide an overview of (a) the assets controlled and liabilities incurred by the government, (b) the cost of services provided by the government, and (c) the taxation and other revenues generated to fund the provision of those services. Financial statements for a government, which delivers services through controlled entities, whether primarily dependent on the government budget to fund their activities or not, are consolidated financial statements.

5. In some jurisdictions, financial statements and budgets for the government, or sectors thereof, may also be issued in accordance with statistical bases of financial reporting. These bases reflect requirements consistent with, and derived from, the *System of National Accounts*, 2008 (2008 SNA) prepared by the United Nations and other international organizations. These statistical bases of financial reporting focus on the provision of financial information about the GGS. The GGS comprises those non-profit entities that undertake nonmarket activities and rely primarily on appropriations or allocations from the government budget to fund their service delivery activities (hereafter referred to as nonmarket entities or activities). The statistical bases of financial reporting may also provide information about (a) the corporations sector of government that primarily engages in market activities (usually characterized as the public financial corporations (PFC) sector and the public nonfinancial corporations (PNFC) sector), and (b) the public sector as a whole. The major features of the PFC and PNFC sectors are outlined at paragraphs 19 and 20 of this Standard.

6. Financial statements consolidate only controlled entities. Such a limitation is not made in statistical bases of financial reporting. In some jurisdictions, a national government controls state/provincial and local government entities, and therefore its financial statements consolidate those levels of government, but in other jurisdictions they do not. In all jurisdictions, under statistical bases of financial reporting, the GGS of all levels of government are combined, so in some jurisdictions the GGS will include units that financial statements do not consolidate. This Standard disaggregates the consolidated financial statements of a government. Therefore, it prohibits the presentation, as part of the GGS, of any entity not consolidated within a government's financial statements.

Segment Reporting

7. IPSAS 18, *Segment Reporting*, requires the disclosure of certain information about the service delivery activities of the entity and the resources allocated to support those activities for accountability and decision-making purposes. Unlike the sectors reported under statistical bases of financial reporting, segments reported in accordance with IPSAS 18 are not based on a distinction between market and nonmarket activities.

8. The disclosure of information about the GGS does not replace the need to make disclosures about segments in accordance with IPSAS 18. This is because information about the GGS alone will not provide sufficient detail to enable users to evaluate the entity's past performance in achieving major service delivery objectives, when those objectives are achieved through non-GGS entities. For example, identifying the GGS as a segment will not provide information about a government's performance in achieving its telecommunication, healthcare or educational objectives, where government corporations or quasi-corporations deliver services related to those objectives. Because the GGS is only a subset of the government as a whole, important information would be omitted if a government did not present segment information in respect of its consolidated financial statements.

Statistical Bases of Financial Reporting

9. The objectives of financial statements prepared in accordance with IPSAS and those prepared in accordance with statistical bases of financial reporting differ in some respects. The objectives of financial statements prepared in accordance with IPSAS are to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it and which it controls. The purpose of financial statements prepared in accordance with statistical bases of financial reporting is to provide information suitable for analyzing and evaluating fiscal policy, especially the performance of the GGS and the broader public sector of any country. In addition, although statistical bases of financial reporting may be described in accounting terms, they might differ in important ways from the underlying financial accounting system from which most of the statistics about government finances will be derived. However, the IPSAS and the statistical bases of financial reporting also have many similarities in the treatment of transactions and events. For example, they adopt an accrual basis of accounting, deal with similar transactions and events, and in some respects require a similar type of report structure.

10. In some jurisdictions, the disclosure of appropriate information about the GGS in financial statements can support and enhance the decision making of, and accountability to, users of those statements. For example, disclosure of information about the GGS is consistent with enhanced transparency of financial reporting, and will assist users of the financial statements to better understand:

    (a) The resources allocated to support the service delivery activities by the GGS, and the government's financial performance in delivering those services; and

    (b) The relationship between the GGS and the corporations sectors, and the impact each has on overall financial performance.

11. In those jurisdictions where financial statements for the government are prepared in accordance with statistical bases of financial reporting and widely published, the disclosure of information about the GGS in financial statements will form a useful link between the financial statements prepared in accordance with IPSAS and those prepared in accordance with statistical bases of financial reporting. This will assist users in reconciling information presented in financial statements to information presented in statistical reports. IPSAS 24, *Presentation of Budget Information in Financial Statements*, requires that financial statements include a comparison of budget and actual amounts on a basis consistent with that adopted for the budget. Where government budgets are prepared for the GGS rather than the government as a whole, financial information

about the GGS disclosed in accordance with this Standard will be relevant to the comparisons required by that IPSAS.

Accounting Policies

12. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. The compilation and presentation of GGS data that satisfy the qualitative characteristics of information provided in financial statements and related audit requirements may add significantly to the workload of preparers and auditors in many jurisdictions, and may increase the complexity of the financial statements. This will be particularly so in jurisdictions where financial statements based on, or incorporating, GGS disclosures in accordance with statistical bases of financial reporting are not currently prepared. In addition, in some jurisdictions, users may not be dependent on financial statements for information about the GGS. In those jurisdictions, the costs involved in preparing and presenting GGS disclosures as part of the financial statements may be greater than their benefit. Therefore, this Standard allows, but does not require, the disclosure of information about the GGS. Whether or not disclosure of information about the GGS will be made in financial statements will be determined by the government or other appropriate authority in each jurisdiction.

13. This standard requires that when disclosures about the GGS are made in financial statements, those disclosures are to be made in accordance with the requirements prescribed in this Standard. This will ensure that an appropriate representation of the GGS is made in the financial statements, and that disclosures about the GGS satisfy the qualitative characteristics of financial information, which are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

14. IPSAS generally apply to all public sector entities. However, it is only possible to disclose a meaningful representation of the GGS for a government – not its individual controlled entities. Therefore, this Standard specifies requirements for application only by governments that prepare consolidated financial statements under the accrual basis of accounting as prescribed by IPSAS. These governments may include national, state/provincial, and local governments.

Definitions

15. **The following term is used in this Standard with the meaning specified:**

The <u>General Government Sector</u> comprises all organizational entities of the general government as defined in statistical bases of financial reporting.

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.

Government Business Enterprises (GBEs)

16. [Deleted]

General Government Sector

17. Under statistical bases of financial reporting, the public sector comprises the GGS, PFC, and PNFC sector. Additional subgroups within these sectors may be identified for statistical analytical purposes.

18. The GGS is defined in the 2008 SNA as consisting of (a) all resident central, state, and local government units, (b) social security funds at each level of government, and (c) nonmarket non-profit institutions controlled by government units. Under statistical bases of financial reporting, the GGS encompasses the central operations of government, and typically includes all those resident nonmarket non-profit entities that have their operations funded primarily by the government and government entities. As such, the financing of these

entities is sourced primarily from appropriation or allocation of the government's taxes, dividends from government corporations, other revenues, and borrowings. The GGS typically includes entities such as government departments, law courts, public educational institutions, public health care units, and other government agencies. The GGS does not include PFCs or PNFCs. Disclosure of GGS information will be made in those jurisdictions where strengthening the link between IPSAS and statistical bases of financial reporting is considered useful and relevant to users of financial statements. Governments electing to make GGS disclosures will therefore need to ensure that the information about the GGS included in the financial statements is consistent with the definition of GGS, and any interpretations thereof, adopted for statistical bases of financial reporting in their jurisdiction.

Public Financial Corporations Sector

19. The PFC sector comprises resident government-controlled financial corporations, quasi-corporations, and non-profit institutions that primarily engage in financial intermediation and the provision of financial services for the market. Included within this sector are government-controlled banks, including central banks, and other government financial institutions that operate on a market basis.

Public Non-Financial Corporations Sector

20. The PNFC sector comprises resident government-controlled non-financial corporations, quasi-corporations, and non-profit institutions that produce goods or nonfinancial services for the market. Included within this sector are entities such as publicly owned utilities and other entities that trade in goods and services.

21. Statistical bases of financial reporting define:

    (a) Corporations as legal entities created for the purpose of producing goods and services for the market;

    (b) Quasi-corporations as enterprises that are not incorporated or otherwise legally established, but function as if they were corporations; and

    (c) Nonprofit institutions as legal or other entities that produce or distribute goods and services, but which do not generate financial gain for their controlling entity.

22. Commercial public sector entities have similar characteristics to a public corporation or public quasi-corporation, as defined in statistical bases of financial reporting. However, there may not be an identical mapping of these public sector entities and the PFC and PNFC sectors. For example, a commercial public sector entity that is not resident would not be classified as a PFC or a PNFC.

Accounting Policies

23. **Financial information about the GGS shall be disclosed in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the government, except as required by paragraphs 24 and 25.**

24. **In presenting financial information about the GGS, entities shall not apply the requirements of IPSAS 35, *Consolidated Financial Statements*, in respect of entities in the PFCs and public NFCS sectors.**

25. **The GGS shall recognize its investment in the PFC and public NFCS sectors as an asset, and shall account for that asset at the carrying amount of the net assets of its investees.**

26. This Standard reflects the view that the consolidated financial statements of a government that elects to disclose information about the GGS are to be disaggregated to present the GGS as one sector of the government reporting entity. Consistent with this view, this Standard requires that the same definitions and the same recognition, measurement, and presentation requirements that are applied when preparing the consolidated financial statements are also applied to the GGS disclosures, with one exception. That

exception is that the requirements of IPSAS 35 are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors.

27. IPSAS 35 requires controlling entities to prepare financial statements that consolidate controlled entities on a line-by-line basis. IPSAS 35 also contains (a) a detailed discussion of the concept of control as it applies in the public sector, and (b) guidance on determining whether control exists for financial reporting purposes. Consistent with the requirements of IPSAS 35, entities in the PFC and PNFC sectors, as defined in statistical bases of financial reporting, that are controlled entities of the government will be consolidated in the government's financial statements.

28. Financial statements prepared consistent with statistical bases of financial reporting portray the impact of the GGS on the public sector as a whole and, in the context of the 2008 SNA, on a national economy. Consistent with that focus, statistical bases of financial reporting require the GGS financial statements to present public sector entities outside that sector as investments in other sectors. In addition, under statistical bases of financial reporting, transactions of the GGS with entities in other sectors are not eliminated from the statement of government operations or a similar statement.

29. To apply the IPSAS 35 requirements for consolidation to the GGS would result in the re-presentation of the consolidated financial statements of a government, rather than the GGS financial statements.

30. Therefore, in disclosing financial information about the GGS, balances and transactions between entities within the GGS are eliminated in accordance with IPSAS 35. However, balances and transactions between entities in the GGS and entities in other sectors are not eliminated.

31. This Standard requires the GGS sector to recognize its investment in entities in the PFC or PNFC sectors at the carrying amount of the net assets of those entities. This will ensure that the GGS disclosures reflect a disaggregation of financial information presented in the consolidated financial statements of the government of which it is a part. Consistent with the GGS being a disaggregation of the consolidated financial statements of a government, changes in the carrying amount of the net assets of those entities will be recognized in the same manner as they are recognized in the consolidated financial statements of a government.

32. Statistical bases of reporting require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSAS include different measurement requirements, and require or permit an historical cost model and current value model for certain classes of assets and liabilities. They do not require all assets and liabilities to be revalued to market value. Therefore, the measurement of assets and liabilities in the GGS disclosures in the financial statements, including the investment in the PFC and PNFC sectors, may differ from the measurement basis adopted in statistical bases of reporting.

Further Disaggregation

33. In some jurisdictions, national governments may control provincial and/or local governments and, consequently, the national government's financial statements will consolidate different levels of government. If financial statements consolidate different levels of government, further disaggregation of the consolidated financial statements may occur in accordance with the requirements of this Standard to separately disclose information about the GGS at each level of government.

34. This further disaggregation is not required by this Standard. However, it may be presented to further assist users to better understand the relationship between the GGS activities of each level of government consolidated in the financial statements, and the relationship between financial statements and the statistical bases of financial reporting in those jurisdictions.

Disclosures

35. **Disclosures made in respect of the GGS shall include at least the following:**

(a) **Assets by major class, showing separately the investment in other sectors;**

(b) **Liabilities by major class;**

(c) **Net assets/equity;**

(d) **Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;(e)**

(e) **Revenue by major class;(f)**

(f) **Expenses by major class;**

(g) **Surplus or deficit;**

(h) **Cash flows from operating activities by major class;**

(i) **Cash flows from investing activities; and**

(j) **Cash flows from financing activities.**

The manner of presentation of the GGS disclosures shall be no more prominent than the government's financial statements prepared in accordance with IPSAS.

36. IPSAS 1 identifies a complete set of financial statements (under the accrual basis) as a statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement, and accounting policies and notes to the financial statements.

37. This Standard requires disclosure of the major classes of assets, liabilities, revenues, expenses, and cash flows reflected in the financial statements. This Standard does not specify the manner in which the GGS disclosures shall be made. Governments electing to make GGS disclosures in accordance with this Standard may make such disclosures by way of (a) note disclosure, (b) separate columns in the financial statements, or (c) otherwise, as considered appropriate in their jurisdiction. However, the manner of presentation of the GGS disclosures will be no more prominent than the consolidated financial statements prepared in accordance with IPSAS.

38. To assist users to understand the relationship of financial information presented for the GGS to a government's operations, statistical bases of financial reporting require total government expenses to be disaggregated and disclosed by class, based on either the economic nature of the expenses or by the Classification of Functions of Government (COFOG). This Standard does not require nor prohibit entities disclosing GGS information from presenting disaggregated GGS information classified by economic nature or consistent with the COFOG classification basis. In some jurisdictions, the COFOG classifications adopted in respect of the GGS disclosures may be similar to the classifications adopted in accordance with IPSAS 18.

39. Entities will also make any additional disclosures that are necessary for users to understand the nature of the information presented.

40. **Entities preparing GGS disclosures shall disclose the significant controlled entities that are included in the GGS, and any changes in those entities from the prior period, together with an explanation of the reasons why any such entity that was previously included in the GGS is no longer included.**

41. This Standard requires entities electing to disclose information about the GGS to disclose a list of the significant controlled entities that are included in the GGS. IPSAS 35 requires entities preparing consolidated financial statements to disclose a list of the significant controlled entities that are included in the consolidated financial statements. Disclosure of which of the entities consolidated in the financial statements in accordance with IPSAS 35 are included in the GGS will assist users in developing an understanding of the relationship

between information about the government and its GGS, and in better understanding the GGS information itself.

42. Similarly, disclosure of changes in the controlled entities included in the GGS will enable users to monitor the relationship between the consolidated financial statements and the GGS information over time.

Reconciliation to the Consolidated Financial Statements

43. **The GGS disclosures shall be reconciled to the consolidated financial statements of the government, showing separately the amount of the adjustment to each equivalent item in those financial statements.**

44. This Standard requires the amounts disclosed in respect of the GGS to be reconciled to their equivalent amounts in the consolidated financial statements of the government. Entities will present separately the adjustment in the amount of the asset investment in PFC and PNFC sectors determined in accordance with paragraph 23, and adjustments to each of the items disclosed separately in accordance with paragraph 35. In addition, entities may, but are not required to, disclose separately the amount of the adjustment to each item attributable to the PFC and the PNFC sectors. This reconciliation will enable the government to better discharge its accountability obligations by demonstrating the relationship between the amounts of each item for the GGS with the total amount of that item for the government.

Reconciliation to Statistical Bases of Financial Reporting

45. Statistical bases of financial reporting and IPSAS have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, in addition to differences in the measurement bases for assets and liabilities outlined in paragraph 32 above, statistical bases of financial reporting treat dividends as expenses, while IPSAS treat them as distributions. Statistical bases of financial reporting also make a distinction between transactions and other economic flows for presentation of financial information that is not currently reflected in the consolidated financial statements, and focus on particular measures relevant for analysis of fiscal policy such as net lending/borrowing and cash surplus/deficit.

46. This Standard does not require a reconciliation of the GGS disclosures in the consolidated financial statements with the GGS disclosures under statistical bases of financial reporting. This is because of concerns about the practicability, and the costs and benefits, of such a requirement in all jurisdictions. However, the inclusion of such a reconciliation by way of note disclosure is not precluded.

Effective Date

47. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

47A. **Paragraph 48 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

47B. **IPSAS 35, *Consolidated Financial Statements* issued in January 2015, amended paragraphs 24, 26, 27, 29, 30, and 41. An entity shall apply those amendments when it applies IPSAS 35.**

47C. **Paragraph 13 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

47D. **Paragraph 16 was deleted and paragraphs 3 and 22 were amended and by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

47E. **Paragraph 37 was amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

47F. **Paragraphs 5, 18, and 28 were amended by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted.**

47G. **Paragraph 32 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

48. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 22.

Introduction

BC1. When this Standard was issued, it referred to the *System of National Accounts 1993* (SNA 1993) (and updates), *Government Finance Statistics Manual* 2001 (GFSM) 2001, and the *European System of Accounts 1995* (ESA 1995), all required governments to publish financial information about the GGS. For statistical purposes, the GGS comprises government-controlled entities primarily engaged in nonmarket activities. The GGS is sometimes described as comprising those entities that fulfill the core functions of government as their primary activity. The GGS does not include public corporations, even when all the equity of such corporations is owned by the government or government entities. In developing *Improvements to IPSAS*, 2021, the IPSASB noted that IPSAS 22 referred to an older edition of the System of National Accounts (SNA). Therefore, the IPSASB amended the Standard to refer to the latest edition of the SNA. Paragraph BC17 provides the rationale for including these amendments to IPSAS 22 through *Improvements to IPSAS*, 2021.

BC2. Current IPSAS do not require entities to disclose information about the GGS in their financial statements. IPSAS require entities to prepare financial statements that include information about all the resources controlled by the reporting entity, and prescribe rules for consolidation of all controlled entities. IPSAS 18, *Segment Reporting*, also requires entities to identify segments and present information about those segments.

BC3. Some governments prepare, present, and widely publish both financial statements and information about the financial characteristics and performance of the public sector prepared in accordance with statistical bases of reporting.

BC4. The IPSASB supports the convergence of IPSAS with statistical bases of reporting where appropriate. The statistical community encouraged the IPSASB to develop an IPSAS addressing the presentation of GGS information as part of a government's consolidated financial statements as a means of facilitating convergence.

BC5. The disclosure of GGS information can provide useful information to users of financial statements, particularly in those jurisdictions in which national or other governments publish both (a) financial statements in accordance with IPSAS, and (b) financial information in accordance with statistical bases of financial reporting. The IPSASB is also of the view that the disclosure of such information can assist users in better understanding the relationship between the market and nonmarket activities of the government. However, the IPSASB is not persuaded that the benefits of making such disclosures may be significantly greater than their costs in those jurisdictions where financial statements prepared in accordance with statistical bases of financial reporting are not routinely prepared and made publicly available. Consequently, these disclosures are not mandatory.

BC6. This Standard specifies requirements for application only by governments. This is because it is only possible to disclose a meaningful representation of the GGS for a government as a whole. In some jurisdictions, national governments may control provincial and/or local governments. Where this occurs, the financial statements may be further disaggregated to separately disclose information about the GGS for each level of government. Such disclosure is likely to assist users to better understand the relationship between the GGS activities of each level of government. However, in some jurisdictions, such disclosures may impose additional pressure on the accounting system and those responsible for data collection and aggregation, and it is not clear that the benefits of such disclosure for users of the financial statements will exceed their cost. Therefore, this Standard does not require entities that elect to disclose information about the GGS to also disclose separately information about the GGS of each level of government consolidated in the financial statements. However, such disclosures are not precluded.

Consolidation and Disaggregation

BC7. Statistical bases of financial reporting and IPSAS have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, statistical bases of financial reporting:

(a) Require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSAS include different measurement requirements, and require or permit an historical cost model and current value model for certain classes of assets and liabilities;

(b) Treat dividends as expenses, while IPSAS treat them as distributions;

(c) Make a distinction between transactions and other economic flows for presentation of financial information. IPSAS do not currently make a similar distinction; and

(d) Focus on the presentation of financial information about the GGS and the other sectors of the public sector as separate components and, in this context, adopt the same rules for recognition and measurement as are adopted for presentation of the rest of the economy, to ensure consistency of the macro-economic totals. Under statistical bases of financial reporting, financial statements prepared for the GGS do not include consolidation of PNFCs, being government-controlled entities that trade in goods and services, and PFCs such as banks. The IPSAS focus on consolidated financial statements which present financial information about all the assets, liabilities, revenues, expenses, and cash flows controlled by the entity.

BC8. This Standard requires that the disclosure of information about the GGS be a disaggregation of a government's consolidated financial statements. This is a similar perspective that is adopted for disclosure of segment information in accordance with IPSAS 18. Accordingly, the same accounting policies as those adopted for the consolidated financial statements are to be adopted in making GGS disclosures, with one exception as noted below.

BC9. When GGS disclosures are made in financial statements, the requirements of IPSAS 35 should not be applied in respect of PFCs and PNFCs. This is because the application of IPSAS 35 to the PFC and PNFC sectors would result in the re-presentation of a government's consolidated financial statements rather than the GGS financial statements. This would defeat the purpose of the disclosure of GGS information as a bridge between financial statements prepared in accordance with IPSAS and those prepared in accordance with statistical bases of financial reporting.

Segment Reporting

BC10. IPSAS 18 requires the separate disclosure of certain information about significant activities or groups of activities for the evaluation of the performance of the entity in achieving its objectives, and for decision-making purposes. IPSAS 18 does not distinguish between exchange and non-exchange transactions and events, or market and nonmarket activity of government. Rather, its focus is on the disclosure of the revenues, expenses, assets, and liabilities associated with the delivery of major services or groups of services – whether these services are delivered by the GGS of the government or by PFCs and PNFCs. The objective of segment reporting is not achieved by the disclosure of information about the GGS. Accordingly, a government electing to disclose information about the GGS needs also to disclose information about segments.

BC11. Statistical bases of financial reporting present information about expenses or expenditure of the government, classified either by economic nature or the COFOG. Either of these classification bases may be applied to disclose additional information about the GGS. In some cases a COFOG classification may be adopted to disclose segment information in a government's consolidated financial statements.

Reconciliation

BC12. The information disclosed about the GGS in accordance with the requirements of this Standard may differ in content and form from that presented under statistical bases of financial reporting.

BC13. The IPSASB considered whether those governments that elect to disclose information about the GGS in accordance with this Standard should be required to disclose a reconciliation of (a) the GGS disclosures in the financial statements, and (b) the GGS disclosures under statistical bases of financial reporting. The IPSASB was concerned that such a requirement may impose significant costs on the preparer, and that those costs may be greater than the benefits in some jurisdictions. This would then discourage governments that might otherwise elect to make such disclosures. Of particular concern to the IPSASB in this respect was, for example, whether the:

(a) Timing of compilation of financial statements and statistical information is such that a reconciliation could be completed within the timeframe necessary for the financial statements to be audited and signed off or authorized for issue in accordance with legislative requirements and/or requirements of the IPSAS;

(b) Inclusion of such a requirement would trigger an audit of the reconciliation, and may also trigger an audit of the statistical reports themselves; and

(c) Entity may be required to remeasure and reclassify assets, liabilities, revenues, and expenses in accordance with the requirements of the statistical bases of financial reporting, and whether this would discourage disclosure of the GGS information.

BC14. On balance, the IPSASB concluded that such a reconciliation should not be required at this stage. However, a reconciliation of the GGS disclosures, presented in accordance with the requirements of this Standard to the equivalent items in the financial statements of the government prepared in accordance with the requirements of IPSAS, (a) is consistent with enhanced transparency, (b) is not onerous, and (c) would be useful to users. The disclosure of a reconciliation of the GGS disclosures presented in accordance with the requirements of this Standard and the GGS disclosures presented under statistical bases of financial reporting is not prohibited.

Revision of IPSAS 22 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC15. 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 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 22 as a result of *Improvements to IPSAS, 2018*

BC16. Paragraph 37 referred to the "primary financial statements." Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term "financial statements" is used elsewhere in IPSAS with the same meaning. Consequently the IPSASB agreed to standardize the terminology and to replace the term “primary financial statements” with the term “financial statements” wherever this term occurred.

Revision of IPSAS 22 as a result of *Improvements to IPSAS, 2021*

BC17. Stakeholders noted that IPSAS 22 still referred to the 1993 edition of the SNA, instead of its most recent edition, the 2008 SNA. Therefore, the IPSASB agreed to amend paragraphs 5, 18, 28 and BC1 to refer to the latest edition of the SNA, that is, the 2008 SNA.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 22.

Illustrative Financial Statement Structure

Government A—Extract Of Financial Statements

Extract from the Notes to the Financial Statements

Note: General Government Sector (GGS) Disclosures

The following disclosures are made for the general government sector (GGS). They reflect the accounting policies adopted in the consolidated financial statements, except that the consolidation requirements have been varied in respect of the public financial corporations (PFCs) sector and public nonfinancial corporations (PNFCs) sector. In accordance with the requirements of IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, PFCs and PNFCs are not consolidated in the GGS disclosures, but are recognized as investments of the GGS. The investments in PFCs and PNFCs are presented as a single line item, measured at the carrying amount of the net assets of the investees.

The GGS comprises all central government ministries and other entities controlled by the government that are primarily engaged in nonmarket activities. These entities are:

Ministry of x

y

z.

During the reporting period, activities related to the postal service, previously undertaken by the ministry of communications, have been reconstituted on a commercial basis and are no longer included in the financial information presented for the GGS.

Statement of Financial Position for the GGS—As At December 31, 20X2

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
ASSETS								
Current assets								
Cash and cash equivalents	X	X	X	X	(X)	(X)	X	X
Receivables	X	X	X	X	(X)	(X)	X	X
Inventories	X	X	X	X			X	X
Prepayments	X	X	X	X	(X)	(X)	X	X
Investment	X	X	X	X			X	X
Other current assets	X	X	X	X			X	X
	X	X	X	X	(X)	(X)	X	X
Non-current assets								
Receivables	X	X	X	X	(X)	(X)	X	X
Investments	X	X	X	X			X	X
Investment in other sectors	X	X			(X)	(X)		
Other financial assets	X	X	X	X	(X)	(X)	X	X
Infrastructure, plant, and equipment	X	X	X	X			X	X
Land and buildings	X	X	X	X			X	X
Intangible assets	X	X	X	X			X	X
Other non-financial assets	X	X	X	X			X	X
	X	X	X	X	(X)	(X)	X	X
TOTAL ASSETS	**X**	**X**	**X**	**X**	**(X)**	**(X)**	**X**	**X**
LIABILITIES								
Current liabilities								
Payables	X	X	X	X	(X)	(X)	X	X
Short-term borrowings	X	X	X	X			X	X
Current portion of borrowings	X	X	X	X			X	X
Provisions	X	X	X	X			X	X
Employee benefits	X	X	X	X			X	X

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Other current liabilities	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
Non-current liabilities								
Payables	X	X	X	X	(X)	(X)	X	X
Borrowings	X	X	X	X			X	X
Provisions	X	X	X	X			X	X
Employee benefits	X	X	X	X			X	X
Other liabilities	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
TOTAL LIABILITIES	**X**	**X**	**X**	**X**	**(X)**	**(X)**	**X**	**X**
NET ASSETS	X	X	X	X	(X)	(X)	X	X
NET ASSETS/EQUITY								
Reserves	X	X	X	X	(X)	(X)	X	X
Accumulated surpluses/(deficits)	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
TOTAL NET ASSETS/EQUITY	**X**	**X**	**X**	**X**	**(X)**	**(X)**	**X**	**X**

Statement of Financial Performance for the GGS—For Year Ended December 31, 20X2—Classification of Function of Government

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
Revenue								
Taxes	X	X			(X)	(X)	X	X
Fees, fines, penalties	X	X	X	X	(X)	(X)	X	X
Revenue from other sectors	X	X	X	X	(X)	(X)		
Transfers from other governments	X	X	X	X			X	X
Other operating revenue	X	X	X	X	(X)	(X)	X	X
Total revenue	X	X	X	X	(X)	(X)	X	X
Expenses								
General public services	X	X					X	X
Defense	X	X					X	X
Public order and safety	X	X	X	X			X	X
Economic affairs	X	X					X	X
Environmental protection	X	X	X	X	(X)	(X)	X	X
Housing and community amenities	X	X	X	X	(X)	(X)	X	X
Health	X	X	X	X			X	X
Recreational, cultural, and religious	X	X					X	X
Education	X	X	X	X	(X)	(X)	X	X
Social protection	X	X	X	X	(X)	(X)	X	X
Total expenses	**X**	**X**	**X**	**X**	**(X)**	**(X)**	**X**	**X**
Surplus/(deficit) for the period	X	X	X	X	(X)	(X)	X	X

Statement of Changes in Net Assets/Equity for the GGS—For The Year Ended December 31, 20X2

(in thousands of currency units)

	GGS			PFC and PNFC	Eliminations	Total W-of-G
	Revaluation Reserve	Translation Reserve	Accumulated Surpluses/ (Deficits)			
Balance at December 31, 20X0	X	(X)	X	X	X	X
Surplus on revaluation of property	X			X		X
Deficit on revaluation of investments	(X)			(X)	X	(X)
Currency translation differences		(X)		(X)		(X)
Net gains and losses not recognized in the statement of financial performance	X	(X)		X	(X)	X
Net surplus for the period			X	X	(X)	X
Balance at December 31, 20X1	X	(X)	X	X	(X)	X
Deficit on revaluation of property	(X)			(X)	X	(X)
Surplus on revaluation of investments	X			X	(X)	X
Currency translation differences		(X)		X		X
Net gains and losses not recognized in the statement of financial performance	(X)	(X)		(X)	(X)	(X)
Net deficit for the period			(X)	(X)	(X)	(X)
Balance at December 31, 20X2	X	(X)	X	X	(X)	X

Cash Flow Statement for the GGS— For Year Ended December 31, 20X2

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts								
Taxation	X	X			(X)	(X)	X	X
Sales of goods and services			X	X	(X)	(X)	X	X
Grants			X	X	(X)	(X)	X	X
Interest received			X	X			X	X
Dividends from other sectors to government	X	X			(X)	(X)		
Other receipts	X	X	X	X	(X)	(X)	X	X
Payments								
Employee costs	(X)	(X)	(X)	(X)			(X)	(X)
Retirement Benefits	(X)	(X)	(X)	(X)			(X)	(X)
Suppliers	(X)	(X)	(X)	(X)			(X)	(X)
Interest paid	(X)	(X)	(X)	(X)			(X)	(X)
Dividend to other sectors			(X)	(X)	X	X		
Other payments	(X)	(X)	(X)	(X)	X	X	(X)	(X)
Net cash flows from operating activities	X	X	X	X	(X)	(X)	X	X
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of plant and equipment	(X)	(X)	(X)	(X)			(X)	(X)
Proceeds from sale of plant and equipment	X	X	X	X			X	X
Proceeds from sale of investments	X	X	X	X			X	X
Purchase of foreign currency securities	(X)	(X)	(X)	(X)			(X)	(X)
Net cash flows from investing activities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
CASH FLOWS FROM FINANCING ACTIVITIES								

	GGS		**PFC and PNFC**		**Eliminations**		**Total W-of-G**	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Proceeds from borrowings	X	X	X	X			X	X
Repayment of borrowings	(X)	(X)	(X)	(X)			(X)	(X)
Net cash flows from financing activities	X	X	X	X	(X)	(X)	X	X
Net increase/(decrease) in cash and cash equivalents	X	X	X	X	(X)	(X)	X	X
Cash and cash equivalents at beginning of period	X	X	X	X	(X)	(X)	X	X
Cash and cash equivalents at end of period	X	X	X	X	(X)	(X)	X	X

IPSAS 23—REVENUE FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006.

Since then, IPSAS 23 has been amended by the following IPSAS:

- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- IPSAS 31, *Intangible Assets* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 28, *Financial Instruments: Presentation* (issued January 2010)

Table of Amended Paragraphs in IPSAS 23

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
1	Amended	IPSAS 40 January 2017
2	Amended	IPSAS 40 January 2017 IPSAS 42 January 2019
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
5	Amended	IPSAS 29 January 2010
6	Amended	IPSAS 40 January 2017
13	Amended	IPSAS 45 May 2023
10	Amended	IPSAS 29 January 2010
31	Amended	*Improvements to IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
37	Amended	IPSAS 28 January 2010
42	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
43	Amended	IPSAS 41 August 2018 IPSAS 45 May 2023
43A	New	IPSAS 45 May 2023
83	Amended	IPSAS 45 May 2023
87	Amended	IPSAS 29 January 2010
97	Amended	IPSAS 45 May 2023
105A	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
105B	New	IPSAS 29 January 2010
106	Amended	IPSAS 29 January 2010
116	Deleted	IPSAS 33 January 2015
117	Deleted	IPSAS 33 January 2015
118	Deleted	IPSAS 33 January 2015
119	Deleted	IPSAS 33 January 2015
120	Deleted	IPSAS 33 January 2015
121	Deleted	IPSAS 33 January 2015
122	Deleted	IPSAS 33 January 2015
123	Deleted	IPSAS 33 January 2015
124A	New	IPSAS 28 January 2010
124B	New	IPSAS 29 January 2010
124C	New	IPSAS 33 January 2015
124D	New	*The Applicability of IPSAS* April 2016
124E	New	IPSAS 40 January 2017
124F	Amended	*COVID-19: Deferral of Effective Dates* November 2020
124G	New	IPSAS 42 January 2019
124H	New	IPSAS 45 May 2023
124I	New	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
125	Amended	IPSAS 33 January 2015
IG23	Amended	IPSAS 45 May 2023
IG27	Amended	IPSAS 31 January 2010
IG54	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
Heading above paragraph IG55	New	IPSAS 41 August 2018
IG55	New	IPSAS 41 August 2018
IG56	New	IPSAS 41 August 2018
Heading above paragraph IG57	New	IPSAS 41 August 2018
IG57	New	IPSAS 41 August 2018
IG58	Amended	IPSAS 41 August 2018 IPSAS 45 May 2023
IG59	New	IPSAS 41 August 2018

IPSAS 23—REVENUE FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)

CONTENTS

International Public Sector Accounting Standard 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, is set out in paragraphs 1–125. All the paragraphs have equal authority. IPSAS 23 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to a public sector combination. This Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to:**

   (a) **A public sector combination that is a non-exchange transaction; and**

   (b) **Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26–31 of**

   IPSAS 42, *Social Benefits* (the insurance approach).

3. [Deleted]

4. [Deleted]

5. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from exchange transactions is addressed in IPSAS 9, *Revenue from Exchange Transactions*. While revenues received by public sector entities arise from both exchange and non-exchange transactions, the majority of revenue of governments and other public sector entities is typically derived from non-exchange transactions, such as:

   (a) Taxes; and

   (b) Transfers (whether cash or noncash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, and the off-market portion of concessionary loans received.

6. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Public sector combinations shall be accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

   <u>Conditions on transferred assets</u> are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

   <u>Control of an asset</u> arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.

   <u>Expenses paid through the tax system</u> are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

   <u>Fines</u> are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature, or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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.

Non-Exchange Transactions

8. In some transactions, it is clear that there is an exchange of approximately equal value. These are exchange transactions and are addressed in other IPSAS.

9. In other transactions, an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions and are addressed in this Standard. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. While the taxing government will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.

10. There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases, the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognized separately. For example, an entity receives CU6 million funding from a multi-lateral development agency. The agreement stipulates that the entity must repay CU5 million of the funding received over a period of 10 years, at 5% interest when the market rate for a similar loan is 11%. The entity has effectively received a CU1 million grant (CU6 million received less CU5 million to be repaid) and entered into CU5 million concessionary loan which attracts interest at 6% below the market interest rate for a similar loan. The CU1 million grant received, as well as the off-market portion of the interest payments in terms of the agreement, are non-exchange transactions. The contractual capital and interest payments over the period of the loan are exchange transactions.

11. There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In addition, entities may receive trade

discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.

Revenue

12. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

13. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 45, *Property, Plant, and Equipment*.

Stipulations

14. Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations, as defined in this Standard. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls.

15. Stipulations relating to a transferred asset may be either conditions or restrictions. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation).

16. Stipulations are enforceable through legal or administrative processes. If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard. Constructive obligations do not arise from stipulations. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets,* establishes requirements for the recognition and measurement of constructive obligations.

Conditions on Transferred Assets

17. Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources, as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties, or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognizes an asset that is subject to a condition, the recipient also incurs a liability.

18. As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred

for other purposes. The reporting entity will still recognize the gross amounts in its financial statements, that is, the entity will recognize a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

Restrictions on Transferred Assets

19. Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, by, for example, taking the matter to a court or other tribunal, or through an administrative process such as a directive from a government minister or other authority, or otherwise. Such actions may result in the entity being directed to fulfill the restriction or face a civil or criminal penalty for defying the court, other tribunal, or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

Substance over Form

20. In determining whether a stipulation is a condition or a restriction, it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.

21. In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable, and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition, and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction. If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.

22. The definition of a condition imposes on the recipient entity a performance obligation – that is, the recipient is required to consume the future economic benefits or service potential embedded in the transferred asset as specified, or return the asset or other future economic benefits or service potential to the transferor. To satisfy the definition of a condition, the performance obligation will be one of substance not merely form, and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform may lead the entity to conclude that the term is in substance neither a condition nor a restriction. This is because, in these cases, the terms of the transfer itself do not impose on the recipient entity a performance obligation.

23. To satisfy the criteria for recognition as a liability, it is necessary that an outflow of resources will be probable, and performance against the condition is required and is able to be assessed. Therefore, a condition will need to specify such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur. In addition, performance will need to be monitored by, or on behalf of, the transferor on an ongoing basis. This

is particularly so where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition, and the return obligation has been enforced if significant failures to perform have occurred in the past.

24. In some cases, an asset may be transferred subject to the stipulation that it be returned to the transferor if a specified future event does not occur. This may occur where, for example, a national government provides funds to a provincial government entity subject to the stipulation that the entity raise a matching contribution. In these cases, a return obligation does not arise until such time as it is expected that the stipulation will be breached, and a liability is not recognized until the recognition criteria have been satisfied.

25. However, recipients will need to consider whether these transfers are in the nature of an advance receipt. In this Standard, advance receipt refers to resources received prior to a taxable event or a transfer arrangement becoming binding. Advance receipts give rise to an asset and a present obligation because the transfer arrangement has not yet become binding. Where such transfers are in the nature of an exchange transaction, they will be dealt with in accordance with IPSAS 9.

Taxes

26. Taxes are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 7 as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation. Noncompulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

27. Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

28. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Analysis of the Initial Inflow of Resources from Non-Exchange Transactions

29. An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognize as a liability. Contributions from owners do not give rise to revenue, so each type of transaction is analyzed, and any contributions from owners are accounted for separately. Consistent with the approach set out in this Standard, entities will analyze non-exchange transactions to determine which elements of general purpose financial statements will be recognized as a result of the transactions. The flow chart on the following page illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether

revenue arises. This Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 30–115.

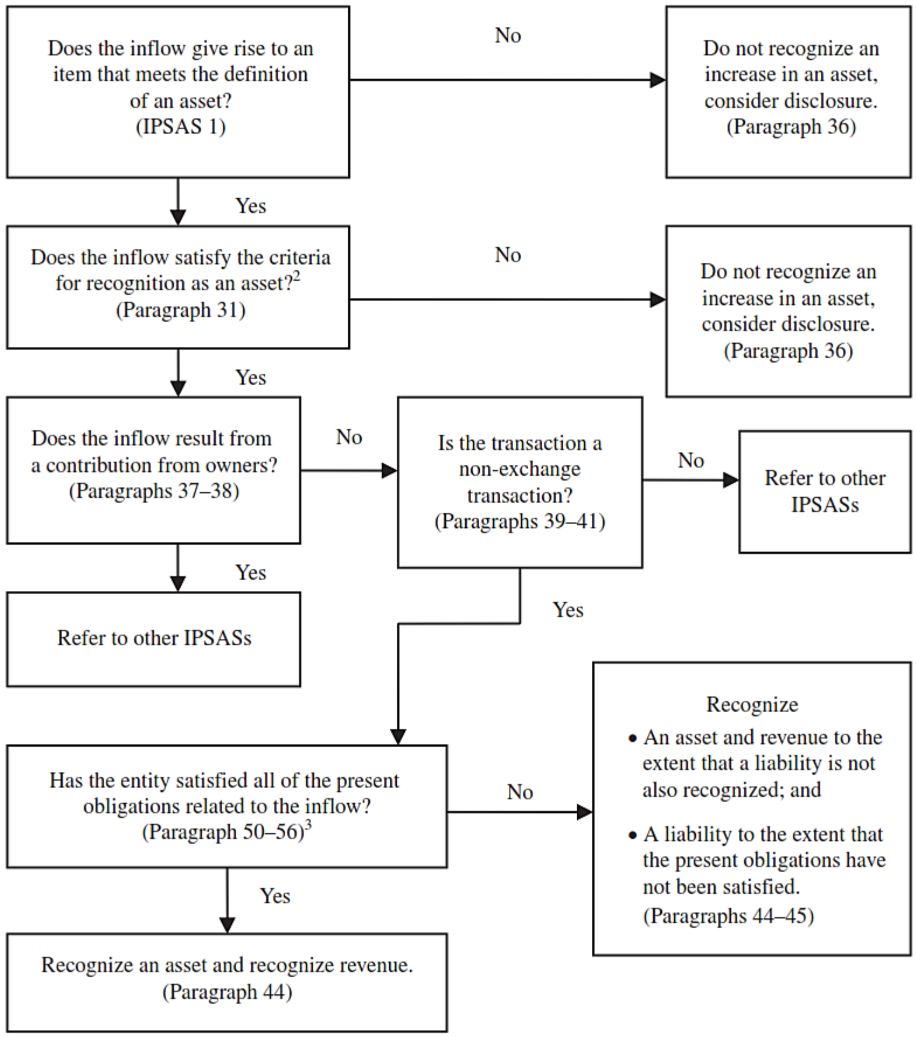

Illustration of the Analysis of Initial Inflows of Resources

1 The flowchart is illustrative only, it does not take the place of this Standard. It is provided as an aid to interpreting this Standard.

2 In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability.

3 In determining whether the entity has satisfied all of the present obligations, the application of the definition of conditions on a transferred asset, and the criteria for recognizing a liability, are considered.

Recognition of Assets

30. Assets are defined in IPSAS 1 as resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.

31. **An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:**

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

(b) **The fair value of the asset can be measured reliably.**[1]

Control of an Asset

32. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph 98, entities may, but are not required, to recognize services in-kind.

33. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled by a recipient. For example, if a public school were destroyed by a forest fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognize an inflow of resources (resources receivable) at the time of the announcement. In circumstances where a transfer agreement is required before resources can be transferred, a recipient entity will not identify resources as controlled until such time as the agreement is binding, because the recipient entity cannot exclude or regulate the access of the transferor to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognize an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transferor's access to those resources.

Past Event

34. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

35. An inflow of resources is probable when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor. For example, where (a) a government agrees to transfer funds to a public sector entity (reporting entity), (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

Contingent Assets

36. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see IPSAS 19).

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[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Contributions from Owners

37. Contributions from owners are defined in IPSAS 1. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 38 indicates the form that contributions from owners may take. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the reporting entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in IPSAS 28, *Financial Instruments: Presentation* when distinguishing liabilities from contributions from owners.

38. A contribution from owners may be evidenced by, for example:

(a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;

(b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or

(c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.

Exchange and Non-Exchange Components of a Transaction

39. Paragraphs 40 and 41 below address circumstances in which an entity gains control of resources embodying future economic benefits or service potential other than by contributions from owners.

40. Paragraph 11 of IPSAS 9, defines exchange transactions and non-exchange transactions, and paragraph 10 of this Standard notes that a transaction may include two components, an exchange component and a non-exchange component.

41. Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognizes the exchange component according to the principles and requirements of other IPSAS. The non-exchange component is recognized according to the principles and requirements of this Standard. In determining whether a transaction has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction.

Measurement of Assets on Initial Recognition

42. **An asset acquired through a non-exchange transaction shall initially be measured at its current value as at the date of acquisition.**

43. Consistent with IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 31, *Intangible Assets* and IPSAS 41, *Financial Instruments*, assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition.

43A. Consistent with IPSAS 45, assets acquired through non-exchange transactions are measured at their deemed cost as at the date of acquisition. The primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.

Recognition of Revenue from Non-Exchange Transactions

44. **An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**

45. **As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.**

46. When an entity recognizes an increase in net assets as a result of a non-exchange transaction, it recognizes revenue. If it has recognized a liability in respect of the inflow of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.

47. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognized as goods or services are provided.

Measurement of Revenue from Non-Exchange Transactions

48. Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity.

49. When, as a result of a non-exchange transaction, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 42, unless it is also required to recognize a liability. Where a liability is required to be recognized it will be measured in accordance with the requirements of paragraph 57, and the amount of the increase in net assets, if any, will be recognized as revenue. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognized as revenue.

Present Obligations Recognized as Liabilities

50. **A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when, and only when:**

    (a) **It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and**

    (b) **A reliable estimate can be made of the amount of the obligation.**

Present Obligation

51. A present obligation is a duty to act or perform in a certain way, and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

52. In many instances, taxes are levied and assets are transferred to public sector entities in non-exchange transactions pursuant to laws, regulation, or other binding arrangements that impose stipulations that they be used for particular purposes. For example:

    (a) Taxes, the use of which is limited by laws or regulations to specified purposes;

(b) Transfers, established by a binding arrangement that includes conditions:

(i) From national governments to provincial, state or local governments;

(ii) From state/provincial governments to local governments;

(iii) From governments to other public sector entities;

(iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

(v) From donor agencies to governments or other public sector entities.

53. In the normal course of operations, a reporting entity may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognized until the taxable event occurs.

54. If a reporting entity receives resources prior to the existence of a binding transfer arrangement, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.

Conditions on a Transferred Asset

55. **Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognized in accordance with paragraph 50.**

56. Stipulations are defined in paragraph 7. Paragraphs 14−25 provide guidance on determining whether a stipulation is a condition or a restriction. An entity analyzes any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.

Measurement of Liabilities on Initial Recognition

57. **The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.**

58. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19.

Taxes

59. **An entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.**

60. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

61. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the

transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income tax for the state government and several city governments, it does not recognize revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes.

62. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

63. Taxes satisfy the definition of non-exchange transaction because the taxpayer transfers resources to the government, without receiving approximately equal value directly in exchange. While the taxpayer may benefit from a range of social policies established by the government, these are not provided directly in exchange as consideration for the payment of taxes.

64. As noted in paragraph 52, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability, because the specific purposes amount to restrictions not conditions.

The Taxable Event

65. Similar types of taxes are levied in many jurisdictions. The reporting entity analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:

(a) Income tax is the earning of assessable income during the taxation period by the taxpayer;

(b) Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;

(c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

(d) Customs duty is the movement of dutiable goods or services across the customs boundary;

(e) Death duty is the death of a person owning taxable property; and

(f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Advance Receipts of Taxes

66. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 59, resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied (see paragraph 59), notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognized until the taxable event occurs. When the taxable event occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions

67. Paragraph 42 requires that assets arising from taxation transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions are measured at the best estimate of the inflow

of resources to the entity. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions that conform with the requirements of paragraph 42. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.

68. \Where there is a separation between the timing of the taxable event and collection of taxes, public sector entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation receivable to other events in the economy. Measurement models will also take account of other factors such as:

(a) The tax law allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;

(b) Taxpayers failing to file returns on a timely basis;

(c) Valuing non-monetary assets for tax assessment purposes;

(d) Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;

(e) The potential that the financial and political costs of rigorously enforcing the tax laws and collecting all the taxes legally due to the government may outweigh the benefits received;

(f) The tax law permitting taxpayers to defer payment of some taxes; and

(g) A variety of circumstances particular to individual taxes and jurisdictions.

69. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3*, Accounting Policies, Changes in Accounting Estimates and Errors*.

70. In some cases, the assets arising from taxation transactions and the related revenue cannot be reliably measured until sometime after the taxable event occurs. This may occur if a tax base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a large deceased estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently the recognition criteria may not be satisfied until payment is received or receivable.

Expenses Paid Through the Tax System and Tax Expenditures

71. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

72. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether

the individual pays taxes. Consequently, this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

73. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

74. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.

75. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Transfers

76. **Subject to paragraph 98, an entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**

77. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange, and are not taxes as defined in this Standard.

78. Transfers satisfy the definition of an asset when the entity controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their fair value can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the entity decreases the carrying amount of the liability.

79. An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one entity promises to transfer resources, but fails to do so. Consequently only when (a) a claim is enforceable, and (b) the entity assesses that it is probable that the inflow of resources will occur, will assets, liabilities, and/or revenue be recognized. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

80. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements (a) that specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) that specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.

81. Transfers satisfy the definition of non-exchange transactions because the transferor provides resources to the recipient entity without the recipient entity providing approximately equal value directly in exchange. If an agreement stipulates that the recipient entity is to provide approximately equal value in exchange, the agreement is not a transfer agreement, but a contract for an exchange transaction that should be accounted for under IPSAS 9.

82. An entity analyzes all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.

Measurement of Transferred Assets

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSAS. As noted previously, inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and IPSAS 45. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

Debt Forgiveness and Assumption of Liabilities

84. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the local government recognizes an increase in net assets because a liability it previously recognized is extinguished.

85. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

86. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 37−38.

87. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

88. Fines are economic benefits or service potential received or receivable by a public sector entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

89. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 31. As noted in paragraph 12, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

90. A bequest is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.

91. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.

92. The fair value of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph 97. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the fair value of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the fair value of the resources received or receivable.

Gifts and Donations, including Goods In-kind

93. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98–103 below.

94. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

95. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.

96. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

97. On initial recognition, gifts and donations including goods in-kind, such as:

(a) Inventories, investment property, intangible assets, and financial instruments are measured at their fair value at the date of acquisition; and

(b) Property, plant, and equipment are measured at their deemed cost at the date of acquisition.

The primary objective for which an entity holds property, plant, and equipment, in accordance with IPSAS 45, determines the current value measurement basis used to determine deemed cost. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.

Services In-kind

98. **An entity may, but is not required to, recognize services in-kind as revenue and as an asset.**

99. Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

100. Public sector entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

   (a) Technical assistance from other governments or international organizations;

   (b) Persons convicted of offenses may be required to perform community service for a public sector entity;

   (c) Public hospitals may receive the services of volunteers;

   (d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and

   (e) Local governments may receive the services of volunteer fire fighters.

101. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 100, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.

102. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 108, however, encourages the disclosure of the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.

103. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

104. Pledges are unenforceable undertakings to transfer assets to the recipient entity. Pledges do not meet the definition of an asset, because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Entities do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognized as a gift or donation, in accordance with paragraphs 93–97 above. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

105. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognized until the event that makes the transfer arrangement binding occurs, and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized.

Concessionary Loans

105A. Concessionary loans are loans received by an entity at below market terms. The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with IPSAS 41. An entity considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is non-exchange revenue that should be accounted for in accordance with this Standard.

105B. Where an entity determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue, an entity recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred assets by the recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

Disclosures

106. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**

  (a) **The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:**

    (i) **Taxes, showing separately major classes of taxes; and**

    (ii) **Transfers, showing separately major classes of transfer revenue.**

  (b) **The amount of receivables recognized in respect of non-exchange revenue;**

  (c) **The amount of liabilities recognized in respect of transferred assets subject to conditions;**

  (ca) **The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets;**

  (d) **The amount of assets recognized that are subject to restrictions and the nature of those restrictions;**

(e) **The existence and amounts of any advance receipts in respect of non-exchange transactions; and**

(f) **The amount of any liabilities forgiven.**

107. **An entity shall disclose in the notes to the general purpose financial statements:**

(a) **The accounting policies adopted for the recognition of revenue from non-exchange transactions;**

(b) **For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;**

(c) **For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and**

(d) **The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.**

108. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognized. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

109. The disclosures required by paragraphs 106 and 107 assist the reporting entity to satisfy the objectives of financial reporting, as set out in IPSAS 1, which is to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.

110. Disclosure of the major classes of revenue assists users to make informed judgments about the entity's exposure to particular revenue streams.

111. Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of (a) the amount of liabilities recognized in respect of conditions, and (b) the amount of assets subject to restrictions assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 106(c).

112. Paragraph 106(e) requires entities to disclose the existence of advance receipts in respect of non-exchange transactions. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgments about the entity's future revenue and net asset position.

113. As noted in paragraph 68, in many cases an entity will be able to reliably measure assets and revenue arising from taxation transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgments about the entity's future revenue and net asset position.

114. Paragraph 107(d) requires entities to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgments about the entity's future revenue and net asset position.

115. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognize these services in-kind and measure them at their fair value. Paragraph 108 encourages an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

Transitional Provisions

116. [Deleted]

117. [Deleted]

118. [Deleted]

119. [Deleted]

120. [Deleted]

121. [Deleted]

122. [Deleted]

123. [Deleted]

Effective Date

124. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after June 30, 2008. Earlier application is encouraged. If an entity applies this Standard for periods beginning before June 30, 2008, it shall disclose that fact.**

124A. **IPSAS 28 amended paragraph 37. An entity shall apply the amendment for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 28 for a period beginning before January 1, 2013, the amendment shall also be applied for that earlier period.**

124B. **IPSAS 29 amended paragraphs 5, 10, 87, and 106, and inserted paragraphs 105A and 105B. An entity shall apply the amendments for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 29 for a period beginning before January 1, 2013, the amendments shall also be applied for that earlier period.**

124C. **Paragraphs 116, 117, 118, 119, 120, 121, 122, 123 and 125 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

124D. **Paragraphs 3 and 4 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

124E. **Paragraphs 1, 2 and 6 were amended by IPSAS 40*, Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

124F. **Paragraphs 43, 105A was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

124G. **Paragraph 2 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.**

124H. **Paragraphs 13, 42, 43, 83, and 97 were amended, and paragraph 43A was added by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

124I. **Paragraph 42 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

125. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 23. Individual IPSASB members gave greater weight to some factors than to others. In forming their views, IPSASB members considered in depth (a) the views expressed by the Steering Committee on Non-Exchange Revenue in the Invitation to Comment (ITC), *Revenue from Non-Exchange Transactions (Including Taxes and Transfers),* issued in January 2004, (b) the views expressed by constituents who responded to the consultation on that ITC, and (c) the views of respondents to Exposure Draft (ED) 29, *Revenue from Non-Exchange Transactions (Including Taxes and Transfers).*

BC2. In developing this IPSAS, the IPSASB considered the provisions of relevant IFRS issued by the IASB, in particular International Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, and IAS 41, Agriculture.

BC3. The IPSASB is cognizant of the project being undertaken by the IASB on revenue recognition and also the IASB's ED Proposed Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The IPSASB will continue to monitor these projects and, at an appropriate time, consider implications of any changes to IFRS for IPSAS and IPSASB projects. However, the IPSASB does not consider it appropriate to preempt the outcome of the IASB's due process and anticipate changes to IFRS. In addition, given the significance of non-exchange revenue to many public sector entities, the IPSASB does not consider that it would be appropriate to defer issuance of this IPSAS pending the outcome of IASB projects.

Background

BC4. Governments and many other public sector entities derive the majority of their revenue from non-exchange transactions. These transactions include, principally, taxation, but also transfers. This IPSAS addresses these types of transactions from the perspective of a public sector entity.

BC5. In 2002, the IPSASB (then the PSC) initiated a project to develop an IPSAS for the recognition and measurement of revenue from non-exchange transactions (including taxes and transfers). The IPSASB established a Steering Committee to develop an ITC to consider the issues related to this issue and make initial recommendations. The Steering Committee was comprised of public sector financial reporting experts from a variety of countries, and was chaired by an IPSASB member. An ITC was published in January 2004, with comments requested by June 30, 2004. Fifty-one comments were received. In November 2004, the IPSASB analyzed those comments and began drafting ED 29, which was published in January 2006, with a request for comments by June 30, 2006.

BC6. In November 2006, the IPSASB undertook an in-depth analysis of the responses to ED 29 and prepared this IPSAS and approved it for issue.

Approach

BC7. This Standard establishes broad principles for the recognition of revenue from non-exchange transactions, and provides guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. In developing this Standard, the IPSASB considered whether to adopt an approach that focused on the development of requirements for accounting for revenue arising from a range of specific types of non-exchange transactions. However, the IPSASB noted and agreed with the views of the Steering Committee that such an approach brings with it consequent risks that the resultant Standard would not provide comprehensive guidance for all revenue from non-exchange transactions. The IPSASB is of the view that the approach adopted in this Standard ensures that appropriate broad principles for the recognition of revenue from non-exchange transactions are established and can be applied to all revenue from non-exchange transactions.

Entity Combinations

BC8. When issued, this Standard did not specify whether entity combinations resulting from non-exchange transactions will give rise to revenue. This was because the IPSASB had not considered the financial reporting of entity combinations in the public sector, including the applicability of IFRS 3, *Business Combinations*, to public sector entities.

BC8A. Subsequently, the IPSASB issued IPSAS 40, *Public Sector Combinations*. IPSAS 40 specifies the accounting for public sector combinations, including the treatment for any gains or losses. Public sector combinations are, therefore, excluded from the scope of this Standard.

Monetary and Non-monetary Assets

BC9. This Standard does not establish different requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify different financial reporting treatments.

Enforceability of Stipulations

BC10. This Standard defines stipulations, conditions, and restrictions as terms in a transfer agreement or legislation or other binding arrangements imposed upon the use of transferred assets. The Standard reflects the view that stipulations, conditions, and restrictions must be enforceable to be effective. The ITC and ED 29 also reflected the principle that stipulations imposed on the use of transferred assets are contained in laws, regulations, or other binding arrangements, and are by definition enforceable. The IPSASB considers that this principle is necessary to prevent the inappropriate deferment of revenue recognition, or the disclosure of restrictions that have no substance.

Stipulations—Conditions

BC11. This Standard requires that where the transfer of an asset imposes a condition on the recipient, the recipient should recognize a liability in respect of the transfer on initial recognition of the asset. This is because the recipient is unable to avoid an outflow of resources, as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties as specified, or else to return to the transferor future economic benefits or service potential. Depending on the nature of the condition, it may be fulfilled progressively, permitting the entity to reduce the amount of the liability and recognize revenue progressively, or it may only be fulfilled on the occurrence of a particular future event, in which case the entity eliminates the liability and recognizes revenue when that event occurs.

BC12. Some are of the view that a liability should be recognized only when it is probable that conditions attaching to the inflow of resources will not be satisfied, and that future economic benefits or service potential will be required to be returned to the transferor. The IPSASB rejected this proposal, because it could result in entities recognizing revenue prematurely, because the entity would recognize the full fair value of the asset as revenue when it initially gains control of the asset, notwithstanding the outflow of resources necessary to satisfy the condition. The financial statements would not, therefore, recognize the present obligation to fulfill the condition imposed by the transfer or return future economic benefits or service potential to the transferor.

Stipulations—Restrictions

BC13. This Standard does not permit entities to recognize a liability in respect of a restriction when the transferred asset is initially recognized. This is because, as defined in this Standard, restrictions do not of themselves impose a present obligation upon the recipient entity to sacrifice future economic benefits or service potential to satisfy the restriction. A breach of a restriction may ultimately lead to a penalty, such as a fine, being imposed upon the recipient entity; however, such a penalty is the result of enforcement procedures resulting from the breach, not from the initial recognition of the asset.

Transactions with Exchange and Non-Exchange Components

BC14. This Standard notes that a single transaction can have two components, an exchange component and a non-exchange component. In these cases, the IPSASB is of the view that the transaction's component parts should be distinguished and recognized separately. Distinguishing the component parts enhances the transparency of financial statements and satisfies the qualitative characteristic of reporting the substance of transactions.

Contributions from Owners

BC15. This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 38). Many public sector entities receive inflows of resources from entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Measurement of Assets

BC16. Prior to the effective date of IPSAS 46, *Measurement*, this Standard required that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. The IPSASB had concluded the use of fair value was appropriate to reflect the substance of the transaction and its consequences for the recipient. In an exchange transaction, the cost of acquisition is a measure of the fair value of the asset acquired. However, by definition, in a non-exchange transaction the consideration provided for the acquisition of an asset is not approximately equal to the fair value of the asset acquired. Fair value most faithfully represented the actual value the public sector entity accrues as a result of the transaction. Initial measurement of assets acquired through non-exchange transactions at their fair value was consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSAS with the requirements of this Standard.

BC16A. As part of the development of IPSAS 46, *Measurement*, the IPSASB decided, in the case of property, plant, and equipment held for its operational capacity, deemed cost should be clarified to include current operational value. The IPSASB agreed to require the use of current operational value on initial measurement where the transaction price does not faithfully reflect the substance of the transaction for property, plant, and equipment held for their operational capacity. While fair value continues to faithfully represent the value to the public sector entity of property, plant, and equipment held for its financial capacity, current operational value faithfully represents the value of property, plant, and equipment held for their operational capacity.

Entity Bank Accounts

BC17. This Standard assumes the requirement that all money deposited in a bank account of an entity satisfies the definition of an asset and meets the criteria for recognition of an asset of the entity. The IPSASB established this principle in paragraphs 1.2.6 and 1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The Standard also requires the recognition of a liability in respect of any amount the reporting entity has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Liabilities

BC18. This Standard requires that where an entity recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB is also cognizant of the amendments proposed for IAS 37 (to be retitled Non-financial Liabilities), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

BC19. This Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts

BC20. This Standard requires an entity that receives resources in advance of the taxable event, or of a transfer arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the entity may need to return part or all of the resources. Some are of the view that, where resources are received in advance of the taxable event, an entity should only recognize a liability where it considers it probable that there will be a subsequent outflow of resources. The IPSASB supports the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to a transfer arrangement becoming binding, the entity recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

BC21. This Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is not permitted. As defined in this Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB is of the view that this treatment is consistent with the principles established in this Standard.

BC22. The treatment prescribed in this Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.[2] The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSAS and the IPSAS 1 requirement not to offset items of revenue and expense. The statistical financial reporting frameworks are currently under review; in particular, a new edition of the United Nations' *System of National Accounts* is currently under development and is due to be published in 2008. The revised framework may revise the current reporting requirement in respect to tax credits. Revision of the *System of National Accounts* often precedes revisions to other statistical frameworks.

The Tax Gap

BC23. For some taxes, reporting entities will be aware that the amount the government is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, noncompliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

BC24. The IPSASB is of the view that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect of the tax gap.

Services In-kind

BC25. This Standard permits, but does not require, recognition of services in kind. This Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the reporting entity has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

Compulsory Contributions to Social Security Schemes

BC26. This Standard does not exclude from its scope compulsory contributions to social security schemes that are non-exchange transactions. There are a variety of different arrangements for funding social security schemes in different jurisdictions. At the time that IPSAS 23 was developed, the IPSASB considered that whether or not compulsory contributions to social security schemes give rise to exchange or non-exchange transactions depends on the particular arrangements of a given scheme, and professional judgment is exercised to determine whether the contributions to a social security scheme are recognized in accordance with the principles established in this Standard, or in accordance with principles established in international or national standards addressing such schemes.

BC26A. The IPSASB reconsidered this issue in developing IPSAS 42, *Social Benefits*. The IPSASB concluded that such contributions are non-exchange transactions, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this Standard.

[2] OECD, Revenue Statistics (Paris: OECD, 2000): p. 267, §20-21.

Revision of IPSAS 23 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC27. 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 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.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 23.

Measurement, Recognition, and Disclosure of Revenue from Non-Exchange Transactions

Income Tax (paragraph 65)

IG1. A national government (reporting entity) imposes a 25 percent tax on personal income earned within the country. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation department by April 15 of the year following the tax year (calendar year), and must pay the remaining tax owed (or claim a refund) at that time. The government's reporting period ends on June 30.

IG2. The government controls a resource – income tax receivable – when the taxable event occurs, which is the earning of assessable income by taxpayers. At the end of the reporting period, the government recognizes assets and revenue in respect of personal income tax on the income earned during the reporting period, to the extent that it can reliably measure it. Assets and revenue will also be recognized in respect of income taxes on income earned in prior periods, but which did not meet the definition of, or satisfy the criteria for recognition as, an asset until the current reporting period.

Measurement of Taxation Revenue (paragraphs 67–70)

IG3. A national government (reporting entity) levies income tax on the personal income of all persons earning income within its jurisdiction. The tax was first levied some seventy years before the current reporting period, and taxation statistics are available for the entire seventy-year period. The tax year and the reporting period are January 1 to December 31. Taxpayers have until April 30 each year to file their tax return, and until June 30 to pay any outstanding taxes. The government is required by legislation to present audited consolidated general purpose financial statements to the legislature no later than March 31.

IG4. Income tax revenue should be recognized in the reporting period in which the taxable event occurred, that is, the earning of taxable income. As the tax administration system does not enable the government to directly measure income tax receivable until after its general purpose financial statements are issued, the government develops a model to indirectly measure income taxation revenue receivable. The government uses the income tax collection history it has in the taxation statistics, which it compares to other observable phenomena to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax installments deducted by employers, sales tax collections (if it levies such a tax), and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with international and national auditing standards.

IG5. The model enables the reporting entity to reliably measure the assets and revenue accruing to it during the reporting period, which are then recognized and disclosed in the general purpose financial statements. The notes to the general purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue. In these circumstances, estimates of tax revenue for one reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Value Added Tax (paragraph 65)[3]

IG6. A national government (reporting entity) imposes a value-added tax (VAT) on all businesses. The tax is 15 percent of the value added and is collected by merchants from customers (taxpayers) at the time of sale. Large and medium-sized businesses are required to submit VAT returns electronically to the tax department on a weekly basis; however, small businesses are permitted to submit VAT returns manually on a quarterly basis.

IG7. The government controls a resource – VAT receivable – when the taxable event occurs, which is the undertaking of taxable activity, that is, the sale of value-added goods or services, during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the taxable activity takes place, or later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Goods and Services Tax (paragraph 65)

IG8. A national government (reporting entity) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 percent of the value of goods and services sold. Most sellers of goods and services are required to electronically submit GST returns to the tax department on a weekly basis. However, small businesses are permitted to manually submit GST returns on a quarterly basis.

IG9. The government controls a resource – GST receivable – when the taxable event occurs, which is the sale of taxable goods and services during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the sales and purchases take place or, if the tax receivable cannot be reliably measured as at the end of the reporting period, later, as soon as it can reliably measure the tax receivable.

Customs Duty (paragraph 65)

IG10. A national government (reporting entity) imposes customs duty on all imports of goods. The duties vary depending on the type of goods imported, and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

IG11. The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the goods move across the boundary, or later, as soon as it can reliably measure the duty receivable.

Death Duties (paragraph 65)

IG12. A national government (reporting entity) imposes death duties of 40 percent on all estates valued at more than 500,000 currency units (CU). Medical practitioners and funeral directors are required to notify the tax department of all deaths. An assessor then makes an interim valuation of the estate to determine whether duty will be payable. Executors of estates are required to file an inventory of the estate with the tax department, which values the estate and determines the duty due from the estate. Probate cannot be granted

[3] Some jurisdictions use the terms Value Added Tax (VAT) and Goods and Services Tax (GST) interchangeably.

until all duty is paid. Due to complexities in testamentary law and frequent appeals of valuations, it takes on average four years to settle estates and collect the duty due.

IG13. The government controls a resource – death duties receivable – when the taxable event occurs, which is the death of a person owning taxable property. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the person dies, or later, as soon as it can reliably measure the assets.

Property Tax (paragraph 65)

IG14. A local government (reporting entity) levies a tax of one percent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

IG15. The government controls a resource – property taxes receivable – when the taxable event occurs, which is the passing of the date on which the taxes are levied, July 31. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which that date occurs.

Advance Receipts of Income Tax (paragraph 66)

IG16. Government A (reporting entity) levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the government.

IG17. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year. The taxable event is the earning of income during the taxation period, which has not commenced. The reporting entity recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

Grant to Another Level of Government for General Purposes (paragraphs 14–16, 76)

IG18. The national government (transferor) makes a grant of CU10 million to a local government in a socioeconomically deprived area. The local government (reporting entity) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. There are no stipulations attached to the grant. All local governments are required to prepare and present audited general purpose financial statements.

IG19. There are no stipulations attached to these grants, and no performance obligation, so the transfers are recognized as assets and revenue in the general purpose financial statements of the reporting period in which they are received or receivable by the local government.

Transfer with Stipulations that do not Satisfy the Definition of a Condition (paragraphs 20−25)

IG20. A national government makes a cash transfer of CU50 million to a state government social housing entity, specifying that it:

(a) Increases the stock of social housing by an additional 1,000 units over and above any other planned increases; or

(b) Uses the cash transfer in other ways to support its social housing objectives.

If neither of these stipulations is satisfied, the recipient entity must return the cash to the national government.

IG21. The state government social housing entity recognizes an increase in an asset (cash) and revenue in the amount of CU50 million. The stipulations in the transfer agreement are stated so broadly as to not impose on the recipient a performance obligation – the performance obligation is imposed by the operating mandate of the entity, not by the terms of the transfer.

Transfer to a Public Sector University with Restrictions (paragraphs 19 and 76)

IG22. The national government (transferor) transfers 200 hectares of land in a major city to a university (reporting entity) for the establishment of a university campus. The transfer agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.

IG23. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its current value in accordance with IPSAS 45. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

Grant to Another Level of Government with Conditions (paragraphs 17−18)

IG24. The national government (transferor) grants CU10 million to a provincial government (reporting entity) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernization, 40 percent for new railroad or tramway systems, and 20 percent for rolling stock purchases and improvements. Under the terms of the grant, the money can only be used as stipulated, and the provincial government is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified in the current year or be returned to the national government.

IG25. The provincial government recognizes the grant money as an asset. The provincial government also recognizes a liability in respect of the condition attached to the grant. As the province satisfies the condition, that is, as it makes authorized expenditures, it reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Research Grant (in Substance Exchange Transaction) (paragraph 8)

IG26. A large corporation that makes cleaning products (transferor) gives money to a public university (reporting entity) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation stipulates that the research results are to be shared with it before being announced to the public, and that it has the right to apply for a patent on the compound.

IG27. This is an exchange transaction. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. IPSAS 9 and IPSAS 31, *Intangible Assets* apply to this transaction.

Debt Forgiveness (paragraphs 84–87)

IG28. The national government (transferor) lent a local government (reporting entity) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no stipulations attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IG29. When it receives the letter and documentation from the national government, which communicates this decision, the local government derecognizes the liability for the loan and recognizes revenue in the statement of financial performance of the reporting period in which the liability is derecognized.

Purchase of Property with Exchange and Non-Exchange Components (paragraphs 8−11, 39–41)

IG30. A public school (reporting entity) purchases land with a fair value of CU100,000 for CU50,000 from a local government. The reporting entity concludes that the non-exchange transaction comprises two components, an exchange component and a non-exchange component. One component involves the purchase of a half share in the land for CU50,000, the other component is a non-exchange transaction that transfers the remaining half share of the land to the school.

IG31. In its general purpose financial statements for the reporting period in which the transaction takes place, the public school recognizes the land at CU100,000, (a cost of CU50,000 and a transfer of CU50,000), a reduction in its asset cash of CU50,000, and revenue from a non-exchange transaction of CU50,000 (the fair value of the increase in net assets recognized).

Proposed Bequest (paragraphs 90–92)

IG32. A 25-year old recent graduate (transferor) of a public university names the university (reporting entity) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.

IG33. The public university does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transferor), which has not occurred.

Pledge—Television Appeal for Public Hospital (paragraph 104)

IG34. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (reporting entity). The annual reporting date of the public hospital is June 30. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

IG35. The public hospital does not recognize any amount in its general purpose financial statements in respect of the pledges. The entity does not control the resources related to the pledge, because it cannot exclude or regulate the access of the prospective transferors to the economic benefits or service potential of the pledged resources; therefore it cannot recognize the asset or the related revenue until the donation is binding on the donor.

Fine (paragraphs 88–89)

IG36. A major corporation is found guilty of polluting a river. As a penalty, it is required to clean up the pollution and to pay a fine of CU50 million. The company is in sound financial condition and is capable of paying the fine. The company has announced that it will not appeal the case.

IG37. The government (reporting entity) recognizes a receivable and revenue of CU50 million in the general purpose financial statements of the reporting period in which the fine is imposed.

External Assistance Recognized (paragraphs 76–82)

IG38. National Government A (reporting entity) enters into an external assistance agreement with National Government B, which provides National Government A with development assistance grants to support National Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by National Government A. Government A measures the fair value of the development assistance at CU5 million.

IG39. When the external assistance agreement becomes binding, National Government A recognizes an asset (a receivable) for the amount of CU5 million, and revenue in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There are no conditions attached to this agreement that require the entity to recognize a liability.

Revenue of Aid Agency (paragraphs 76, 93–97)

IG40. Green-Aid Agency relies on funding from a group of governments. The governments have signed a formal agreement, which determines the percentage of Green-Aid Agency's approved budget that each government will fund. Green-Aid Agency can only use the funds to meet the expenses of the budget year for which the funds are provided. Green-Aid Agency's financial year begins on January 1. Green-Aid Agency's budget is approved in the preceding October, and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time.

IG41. For the budget year 20X8, the profile of amounts and timing of payments was as follows:

	(CU Million)
Budget approved October 24, 20X7	55
Amount invoiced November 4, 20X7	55
Transfers received as at December 31, 20X7	15
Transfers received during 20X8	38
Amount not received by December 31, 20X8 and unlikely to be received	2

IG42. In 20X7, Green-Aid Agency recognizes an asset of CU15 Million for the amount of transfers received before the start of 20X8, because it has control over an asset when the transfer is received and deposited in its bank account. An equivalent CU15 Million liability, revenue received in advance, is recognized.

IG43. In 20X8, Green Aid Agency recognizes CU53 million of revenue from transfers. In the notes to its general purpose financial statements, it discloses that CU55 Million was invoiced and an allowance for doubtful debts of CU2 Million was established.

Goods In-kind Recognized as Revenue (paragraphs 42, 93–97)

IG44. Transferor Government A has an arrangement with the public sector reporting entity, Aid Agency Inc., whereby Government A provides rice to meet its promised financial commitments to Aid Agency Inc. Based on the variability in Government A's past performance in meeting its commitments, Aid Agency Inc. has adopted an accounting policy of not recognizing the asset and revenue until receipt of the promised rice. Government A promises to provide Aid Agency Inc. with CU300,000 during 20X5. Government A subsequently transfers 1,000 metric tons of rice to Aid Agency Inc. on January 12, 20X5. The transfer of the rice takes place in one of the ports of the transferor nation. According to the details of the funding agreement between Aid Agency Inc. and Government A, the rice is valued at the previously agreed amount of CU300 per ton, with the result that the transfer of 1,000 metric tons of rice fully discharges Government A's financial commitment of CU300,000. During February and March 20X5, Aid Agency Inc. provides the rice to a network of local distribution agencies in Nations B and C in order to meet the needs of starving people.

IG45. On January 12, 20X5, the market price of 1,000 metric tons of rice was: CU280,000 in Government A's nation; CU250,000 in the international commodities market; CU340,000 in recipient Nation B; and CU400,000 in recipient Nation C.

IG46. The fair value of the rice at the time of the donation must be determined to measure the revenue that Aid Agency Inc. recognizes. The financial agreement between the donor and the aid agency, which allows the rice to be valued at CU300 per metric ton, depends on a private agreement between the two parties, and does not necessarily reflect the fair value of the rice. Both Aid Agency Inc. and Donor Government A have the option of purchasing the rice on the world market at the lower price of CU250,000. The market prices for individual countries appear open to fluctuation – either as a result of trade barriers or, in the case of recipient countries, temporary distortions due to severe food shortages, and may not reflect a transfer between a knowledgeable willing buyer and a knowledgeable willing seller in an orderly market. Therefore, the world market price of CU250,000 is the most reliable and relevant reflection of fair value for the donated rice. Aid Agency Inc. recognizes an increase in an asset (rice inventory) and revenue of CU250,000 in its general purpose financial statements for the year in which the transfer is received.

Disclosure of Services In-kind not Recognized (paragraphs 98–102, 108)

IG47. A public hospital's (reporting entity) accounting policies are to recognize voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organized program. The principal aim of the program is to expose volunteers to the hospital environment, and to promote nursing as a career. Volunteers must be at least sixteen years of age, and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.

IG48. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognize the services in-kind provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Contribution from Owners (paragraphs 37−38)

IG49. In 20X0 the neighboring cities of Altonae, Berolini and Cadomi form the Tri-Cities Electricity Generating Service (TCEGS) (reporting entity). The charter establishing TCEGS is binding on the city governments and provides for equal ownership, which can only be changed by agreement. The cities contribute CU25 million each to establish TCEGS. These contributions satisfy the definition of a contribution from owners, which the entity recognizes as such. The charter also provides for the cities to purchase the output of the TCEGS in proportion to their ownership. The purchase price is equal to the full costs of production. In 20X9, the city of Berolini gives approval for the construction of an aluminum smelter within the city, which will result in a doubling of the city's electricity demand. The three cities agree to amend the charter of TCEGS to permit Berolini to make a contribution from owners to enable the construction of additional generating capacity. After an independent valuation of TCEGS, the cities agree that Berolini may make a CU50 million contribution from owners and increase its ownership share to 49.9%, with Altonae and Cadomi retaining 25.05% each.

IG50. When the amendment to the charter becomes binding, TCEGS will recognize an increase in assets of CU50 million (cash or contribution from owners receivable) and a contribution from owners of CU50 million.

Grant Agreement Term not Requiring Recognition of a Liability (paragraphs 20−25)

IG51. National Park Department (reporting entity) of Country A receives a grant of CU500,000 from the bilateral aid agency of Country B. The grant agreement stipulates that the grant is required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, but if the money is not used for the stated purpose, it must be returned to Country B. The terms of the grant agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that National Park Department has received a grant of this type from the same transferor. In prior years, the grant has not been used as stipulated, but has been used to acquire additional land adjacent to national parks for incorporation into the parks. National Park Department has not conducted any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.

IG52. National Park Department analyzes the transaction and concludes that, although the terms of the grant agreement are enforceable, because the bilateral aid agency has not enforced the condition in the past, and given no indication that it ever would, the terms have the form of a stipulation and condition, but not the substance. National Park Department recognizes an increase in an asset (cash in bank) and grant revenue; it does not recognize a liability.

Disclosures Made in the Financial Statements of Government A (paragraphs 106–108)

IG53. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with IPSAS for the first time. It makes the following disclosures in its financial statements:

Statement of Financial Performance

	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Non-Exchange Transactions		
Taxation Revenue		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
Transfer Revenue		
Transfers from Other Governments (note 7)	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X

Statement of Financial Position

Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Noncurrent Assets		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
Liabilities recognized under transfer arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements

Accounting Policies

Recognition of Revenue from Non-Exchange Transactions

1. Assets and revenue arising from taxation transactions are recognized in accordance with the requirements of IPSAS 23*, Revenue from Non-Exchange Transactions (Taxes and Transfers).* However, the Government takes advantage of the transitional provisions in that Standard in respect of income taxes and estate taxes.

   Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 4 and 6).

2. Assets and revenue arising from transfer transactions are recognized in the period in which the transfer arrangement becomes binding, except for some services in-kind. The government recognizes only those services in-kind that are received as part of an organized program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognized.

3. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the Government recognizes a liability until the condition is fulfilled.

Basis of Measurement of Major Classes of Revenue from Non-Exchange Transactions

Taxes

4. Income tax revenue is measured at the nominal value of cash, and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accruals basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended December 31, 20X4. The Government does not recognize any amount in respect of income taxes receivable.

5. Assets and revenue accruing from goods and services tax are initially measured at the fair value of assets accruing to the government during the reporting period, principally cash, cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

   Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.

6. Estate tax of 40% is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the fair value as at the date of acquisition of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

Transfer Revenue

7. Assets and revenue recognized as a consequence of a transfer are measured at the fair value of the assets recognized as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognized when a binding transfer arrangement is in place, but cash or other assets have not been received.

Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers*), to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The government estimates that it will be able to reliably measure income tax on an accruals basis using the model for the reporting period ending December 31, 20X4.

9. In respect of estate taxes, due to current high levels of noncompliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognized in Respect of Transfers

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer to it conditional upon it building a public hospital. As at December 31, the Government had received a cash payment, however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

Assets Subject to Restrictions

11. Land with a fair value of CUXX,000 was donated during 20X2, subject to the restriction that it be used for public health purposes and not be sold for 50 years. The land was acquired by the transferor at a public auction immediately prior to its transfer, and the auction price is the fair value.

12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government, and subject to the restriction that it not be sold for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognize these assets when control passes to them, usually on receipt of the resources, either cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.

14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on condition that it be used by the education department or be returned to Government C.

Services In-kind

15. Hospitals controlled by the government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value, as determined by reference to the medical profession's published schedule of fees.

16. Hospitals, schools, and art galleries controlled by the government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured as there are no equivalent paid positions available in the local markets and, in the absence of volunteers, the services would not be provided. The government does not recognize these services in the statements of financial position or financial performance.

Concessionary Loans (paragraphs 105A to 105B)

IG54. An entity receives CU6 million funding from a multi-lateral development agency to build 10 schools over the next 5 years. The funding is provided on the following conditions:

- CU1 million of the funding need not be repaid, provided that the schools are built.
- CU5 million of the funding is to be repaid as follows:

  Year 1: no capital to be repaid

  Year 2: 10% of the capital to be repaid

  Year 3: 20% of the capital to be repaid

  Year 4: 30% of the capital to be repaid

  Year 5: 40% of the capital to be repaid
- Interest is charged at 5% per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10%.
- To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned).
- The entity built the following schools over the period of the loan:

  Year 1: 1 school completed

  Year 2: 3 schools completed

  Year 3: 5 schools completed

  Year 4: 10 schools completed

Analysis

The entity has effectively received a grant of CU1 million and a loan of CU5 million (Note: An entity would consider whether the substance of the CU1 million is a contribution from owners or revenue; assume for purposes of this example that the CU1 million is revenue). It has also received an additional grant of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the contractual cash flows of the loan, discounted using the market related rate of interest of 10%).

The grant of CU1 million + CU784,550 is accounted for in accordance with this Standard and, the loan with its related contractual interest and capital payments, in accordance with IPSAS 41.

1. On initial recognition, the entity will recognize the following:

Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the entity will recognize the following:

Dr		Liability	CU178,455	
	Cr	Non-exchange revenue		CU178,455

(1/10 of the schools built X CU1,784,550)

(Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples are included in the Illustrative Examples to IPSAS 41).

3.
Year 2: the entity will recognize the following (assuming that the entity subsequently measures the concessionary loan at amortized cost):

Dr		Liability	CU356,910	
	Cr	Non-exchange revenue		CU356,910

(3/10 schools built X CU1,784,500 – CU178,455 already recognized)

4. Year 3: the entity will recognize the following:

Dr		Liability	CU356,910	
	Cr	Non-exchange revenue		CU356,910

(5/10 schools built X CU1,784,550 – CU535,365 already recognized)

5. Year 4: the entity will recognize the following:

Dr		Liability	CU892,275	
	Cr	Non-exchange revenue		CU892,275

(All schools built, CU1,784,550 – CU892,275)

If the concessionary loan was granted with no conditions, the entity would recognize the following on initial recognition:

Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Non-exchange revenue		CU1,784,550

Interaction Between Measurement Requirements of IPSAS 23 and IPSAS 41

Background

IG55. An individual donates shares in listed Entity X to public sector Entity A on January 1, 20X8. At that date, the shares in Entity X have a fair value of CU1,000,000. At December 31, 20X8, the fair value of the shares is CU900,000. As part of the arrangement, Entity A incurs the transfer duty to have the shares transferred into its name. These costs amount to CU10,000.

IG56. Listed Entity X provides telecommunications infrastructure and related services to the public. During 20X9, new technology was introduced into the telecommunications industry, making the infrastructure and equipment used by Entity X almost obsolete. This resulted in a permanent decline in the value of listed Entity X. The value of the impairment loss as at December 31, 20X9 is CU700,000. Entity A measures investments in shares at fair value through net assets/equity when the shares are not held for trading. Assume that the arrangement is a contractual arrangement, no present obligations arise from the donation and that the entity's reporting period ends on December 31, 20X8.

Analysis

IG57. As Entity A received the shares as a donation, it uses IPSAS 23 to initially recognize the shares acquired and the related non-exchange revenue. However, because Entity A has acquired a financial asset, it considers the initial measurement requirements of IPSAS 23 and IPSAS 41.

IG58. IPSAS 23 prescribes that assets acquired as part of a non-exchange revenue transaction are initially measured at deemed cost, while IPSAS 41 prescribes that financial assets are initially measured at fair value and, depending on their classification, transaction costs may or may not be included. As the entity has a policy of measuring investments in shares at fair value through net assets/equity, the transaction costs of CU10,000 are added to the value of the shares of CU1,000,000 on initial measurement.

IG59. The subsequent measurement and derecognition of the shares are addressed in IPSAS 41. The entity measures investments in shares at fair value through net assets/equity which means that the shares are measured at a fair value with any subsequent changes in fair value recognized in net assets/equity. Dividends are however recognized in surplus or deficit.

The journal entries at initial acquisition and at the reporting dates are as follows:

1. Acquisition of shares through donation

Dr		Investment in Entity X	CU1,010,000	
	Cr	Non-exchange revenue		CU1,000,000
	Cr	Bank (Transfer costs paid)		CU10,000

2. Subsequent measurement at December 31, 20X8

Dr		Net assets/equity (fair value adjustment of investment)	CU110,000	
	Cr	Investment in Entity X		CU110,000

3. Subsequent measurement at December 31, 20X9

Dr		Impairment loss (net assets/equity)	CU700,000	
	Cr	Investment in Entity X		CU700,000

IPSAS 24—PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 24, *Presentation of Budget Information in Financial Statements* was issued in December 2006.

Since then, IPSAS 24 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 42, *Social Benefits* (issued January 2019)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 24

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Amended	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
21	Amended	*Improvements to IPSAS* October 2018
22	Amended	*Improvements to IPSAS* October 2018
24	Amended	*Improvements to IPSAS* October 2018
26	Amended	*Improvements to IPSAS* April 2016
46	Amended	*The Applicability of IPSAS* April 2016
48	Amended	IPSAS 42 January 2019
54A	New	IPSAS 33 January 2015
54B	Amended	*Improvements to IPSAS* April 2016
54C	New	*The Applicability of IPSAS* April 2016
54D	New	*Improvements to IPSAS* October 2018
54E	New	IPSAS 42 January 2019
55	Amended	IPSAS 33 January 2015
IE	Amended	IPSAS 42 January 2019

Paragraph Affected	How Affected	Affected By
		IPSAS 47 May 2023

IPSAS 24—PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS

CONTENTS

International Public Sector Accounting Standard 24, *Presentation of Budget Information in Financial Statements*, is set out in paragraphs 1–55. All the paragraphs have equal authority. IPSAS 24 should be read in the context of its objective, the Basis for Conclusions, the *Preface to the International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable. This Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating (a) compliance with the approved budget(s) for which they are held publicly accountable and (b) where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard.3.**

3. **This Standard applies to public sector entities which are required or elect to make their approved budget(s) publicly available.**

4. [Deleted]

5. This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or make comparisons with, approved budgets that are not made publicly available.

6. In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities, or entities included in the financial statements of a government or other public sector entity. This may occur (a) where, for example, a government's financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or (b) where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities that present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

<u>Accounting basis</u> means the accrual or cash basis of accounting as defined in the accrual basis IPSAS and the Cash Basis IPSAS.

<u>Annual budget</u> means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.

<u>Appropriation</u> is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.

<u>Approved budget</u> means the expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.

<u>Budgetary basis</u> means the accrual, cash, or other basis of accounting adopted in the budget that has been approved by the legislative body.

Comparable basis means the actual amounts presented on the same accounting basis, same classification basis, for the same entities, and for the same period as the approved budget.

Final budget is the original budget, adjusted for all reserves, carry-over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period.

Multi-year budget is an approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.

Original budget is the initial approved budget for the budget period.

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.

Approved Budgets

8. An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multi-year budget period, based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being the legislature or other relevant authority. An approved budget is not a forward estimate, or a projection based on assumptions about future events and possible management actions that are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information, which may be in the form of a forecast, a projection, or a combination of both; for example, a one-year forecast plus a five-year projection.

9. In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body or other appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some jurisdictions, the approved budget for which the entity will be held accountable may be the original budget, and in others it may be the final budget.

10. If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.

Original and Final Budget

11. The original budget may include residual appropriated amounts automatically carried over from prior years by law. For example, governmental budgetary processes in some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances, and include outstanding purchase orders and contracts where goods or services have not yet been received.

12. Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, war or natural disasters. In addition, there may be a shortfall in budgeted revenues during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The final budget includes all such authorized changes or amendments.

Actual Amounts

13. This Standard uses the term actual or actual amount to describe the amounts that result from execution of the budget. In some jurisdictions, budget out-turn, budget execution, or similar terms may be used with the same meaning as actual or actual amount.

Presentation of a Comparison of Budget and Actual Amounts

14. **Subject to the requirements of paragraph 21, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:**

    (a) **The original and final budget amounts;**

    (b) **The actual amounts on a comparable basis; and**

    (c) **By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.**

15. Presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget that is made publicly available will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the variance in accounting), may also be presented in the financial statements for completeness.

16. An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

17. An entity may be required, or may elect, to make publicly available its original budget, its final budget, or both its original and final budget. In circumstances where both the original and final budget are required to be made publicly available, the legislation, regulation, or other authority will often provide guidance on whether explanation of material differences between the actual and the original budget amounts, or actual and the final budget amounts, is required in accordance with paragraph 14(c). In the absence of any such guidance, material differences may be determined by reference to, for example, (a) differences between actual and original budget to focus on performance against original budget, or (b) differences between actual and final budget to focus on compliance with the final budget.

18. In many cases, the final budget and the actual amount will be the same. This is because budget execution is monitored over the reporting period, and the original budget progressively revised to reflect changing conditions, changing circumstances, and experiences during the reporting period. Paragraph 29 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. Those disclosures, together with the disclosures required by paragraph 14 above, will ensure that entities that make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.

19. Management discussion and analysis, operations review, or other public reports that provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In

accordance with paragraph 14(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements, unless (a) included in other public reports or documents issued in conjunction with the financial statements, and (b) the notes to the financial statements identify the reports or documents in which the explanation can be found.

20. Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 14 will apply to only the entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole-of-government reporting entity, the disclosures required by paragraph 14 will be made only in respect of the general government sector of the government.

Presentation and Disclosure

21. **An entity shall present a comparison of budget and actual amounts as additional budget columns in the financial statements only where the financial statements and the budget are prepared on a comparable basis.**

22. Comparisons of budget and actual amounts may be presented in a separate financial statement, (Statement of Comparison of Budget and Actual Amounts or a similarly titled statement) included in the complete set of financial statements as specified in IPSAS 1. Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the existing financial statements presented in accordance with IPSAS. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

23. When the budget and financial statements are not prepared on a comparable basis, a separate Statement of Comparison of Budget and Actual Amounts is presented. In these cases, to ensure that readers do not misinterpret financial information that is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ, and that the Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

24. In those jurisdictions where budgets are prepared on the accrual basis and encompass the full set of financial statements, additional budget columns can be added to all the financial statements required by IPSAS. In some jurisdictions, budgets prepared on the accrual basis may be presented in the form of only certain of the financial statements that comprise the full set of financial statements as specified by IPSAS – for example, the budget may be presented as a statement of financial performance or a cash flow statement, with additional information provided in supporting schedules. In these cases, the additional budget columns can be included in the financial statements that are also adopted for presentation of the budget.

Level of Aggregation

25. Budget documents may provide great detail about particular activities, programs, or entities. These details are often aggregated into broad classes under common budget heads, budget classifications, or budget headings for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget documents.

26. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, requires financial statements to provide information that meets the qualitative characteristics, including that the information is relevant to the accountability and decision-making needs of users, faithfully represents the financial position, financial

performance, and cash flows of the entity, meets the other qualitative characteristics and takes account of the constraints on information included in general purpose financial reports.

27. In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as outlined in paragraph 26 above and in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.*

28. Additional budget information, including information about service achievements, may be presented in documents other than financial statements. A cross reference from financial statements to such documents is encouraged, particularly to link budget and actual data to nonfinancial budget data and service achievements.

Changes from Original to Final Budget

29. **An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors:**

(a) **By way of note disclosure in the financial statements; or**

(b) **In a report issued before, at the same time as, or in conjunction with, the financial statements, and shall include a cross reference to the report in the notes to the financial statements.**

30. The final budget includes all changes approved by legislative actions or other designated authority to revise the original budget. Consistent with the requirements of this Standard, a public sector entity will include in the notes to the financial statements or in a separate report issued before, in conjunction with, or at the same time as the financial statements, an explanation of changes between the original and final budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management discussion and analysis or similar report on operations issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where disclosures are made in separate reports rather than in the financial statements, the notes to the financial statements will include a cross reference to the report.

Comparable Basis

31. **All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.**

32. The comparison of budget and actual amounts will be presented on the same accounting basis (accrual, cash, or other basis), same classification basis, and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

33. Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 6, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements of this Standard.

Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

34. Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, a government may adopt the accrual basis for its financial statements and the cash basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report assets, liabilities, net assets/equity, revenues, expenses, other changes in net assets/equity, and cash flows. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner that facilitates the comparison of budget and actual data for management and for accountability purposes, for example, for monitoring progress of execution of the budget during the budget period and for reporting to the government, the public, and other users on a relevant and timely basis.

35. In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector, and encompass only entities fulfilling the primary or nonmarket functions of government as their major activity, while financial statements report on all activities controlled by a government, including the business activities of the government. IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, specifies requirements for note disclosure of financial information about the general government sector of a whole-of-government entity that adopts the accrual basis of accounting and elects to make such disclosures. In many cases, disclosures made in accordance with IPSAS 22 will encompass the same entities, activities, and classification bases as adopted in budgets prepared consistent with the general government sector as defined in statistical reporting models. In these cases, disclosures made in accordance with IPSAS 22 will also facilitate the disclosures required by this Standard.

36. In statistical reporting models, the general government sector may comprise national, state/provincial, and local government levels. In some jurisdictions, the national government may (a) control state/provincial and local governments, (b) consolidate those governments in its financial statements and (c) develop, and require to be made publicly available, an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the financial statements of those national governmental entities. However, where a national government does not control state/provincial or local governments, its financial statements will not consolidate state/provincial or local governments. Rather, separate financial statements are prepared for each level of government. The requirements of this Standard will only apply to the financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

Multi-year Budgets

37. Some governments and other entities approve and make publicly available multi-year budgets, rather than separate annual budgets. Conventionally, multi-year budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multi-year budget for that component period. In some cases, the multi-year budget provides for a roll forward of unused appropriations in any single year.

38. Governments and other entities with multi-year budgets may take different approaches to determining their original and final budget, depending on how their budget is passed. For example, a government may pass a biennial budget that contains two approved annual budgets, in which case an original and final approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial

budget are legally authorized to be spent in the second year, the original budget for the second-year period will be increased for these carry over amounts. In the rare cases in which a government passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in identifying which amounts are attributable to each annual period in determining annual budgets for the purposes of this Standard. For example, the original and final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the original budget for the second annual period, and that budget together with any amendments thereto would form the final budget for the second year. Where multi-period budgets are adopted, entities are encouraged to provide additional note disclosure about the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

39. **An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.**

40. There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the accounting basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows, or cash flows plus certain commitments, while the financial statements report cash flows and accrual information.

41. Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, by economic nature (compensation of employees, use of goods or services, etc.), or function (health, education, etc.). Alternatively, the budget may classify items by specific programs (for example, poverty reduction or control of contagious diseases) or program components linked to performance outcome objectives (for example, students graduating from tertiary education programs or surgical operations performed by hospital emergency services), which differ from classifications adopted in the financial statements. Further, a recurrent budget for ongoing operations (for example, education or health) may be approved separately from a capital budget for capital outlays (for example, infrastructure or buildings).

42. IPSAS 1 requires entities to present, in notes to the financial statements, information about the basis of preparation of the financial statements and the significant accounting policies adopted. Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.

43. **An entity shall disclose in notes to the financial statements the period of the approved budget.**

44. Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multi-year periods. Disclosure of the period covered by the approved budget, where that period differs from the reporting period adopted for the financial statements, will assist the users of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget, where that period is the same as the period covered by the financial statements, will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.

45. **An entity shall identify in notes to the financial statements the entities included in the approved budget.**

46. IPSAS require entities to prepare and present financial statements that consolidate all resources controlled by the entity. At the whole-of-government level, financial statements prepared in accordance with IPSAS will encompass budget-dependent entities and commercial public sector entities controlled by the government. However, as noted in paragraph 35, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market basis. Consistent with the requirements of paragraph 31, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget, and how the budget entity differs from the entity reflected in the financial statements.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

47. **The actual amounts presented on a comparable basis to the budget in accordance with paragraph 31 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the following actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences:**

   (a) **If the accrual basis is adopted for the budget, total revenues, total expenses, and net cash flows from operating activities, investing activities, and financing activities; or**

   (b) **If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities, and financing activities.**

   The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts, or in the notes to the financial statements.

48. Differences between the actual amounts identified consistent with the comparable basis, and the actual amounts recognized in the financial statements, can usefully be classified into the following:

   (a) Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis or modified cash basis and the financial statements are prepared on the accrual basis;

   (b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and

   (c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

   There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget. For example, social benefits as defined in IPSAS 42, *Social Benefits*, are limited to cash transfers. The GFS classification of social benefits is wider, and includes some individual services provided by governments.

49. The reconciliation required by paragraph 47 of this Standard will enable the entity to better discharge its accountability obligations, by identifying major sources of difference between the actual amounts on a budget basis and the amounts recognized in the financial statements. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.

50. For some entities adopting the same basis of accounting for preparation of both the budget documents and the financial statements, only the identification of differences between actual amounts in the budget and the equivalent amounts in the financial statements will be required. This will occur where the budget (a) is prepared for the same period, (b) encompasses the same entities, and (c) adopts the same presentation

format as the financial statements. In these cases, a reconciliation is not required. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity, or reporting period; for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only noncommercial activities of the entity, or maybe a multi-year budget. A reconciliation would be necessary where there are presentation, timing, or entity differences between the budget and the financial statements prepared on the same accounting basis.

51. For those entities using the cash basis (or a modified cash or modified accrual basis) of accounting for the presentation of the approved budget and the accrual basis for their financial statements, the major totals presented in the statement of budget and actual comparison will be reconciled to net cash flows from operating activities, net cash flows from investing activities, and net cash flows from financing activities as presented in the cash flow statement prepared in accordance with IPSAS 2, *Cash Flow Statements.*

52. **The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.**

53. This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities that make publicly available their approved budget(s). It does not require the disclosure of a comparison of actuals of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

Effective Date

54. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2009. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2009, it shall disclose that fact.**

54A. **Paragraph 55 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

54B. **Paragraph 26 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

54C. **Paragraph 4 was deleted and paragraphs 3 and 46 were amended by *The Applicability of IPSAS,* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

54D. **Paragraphs 21, 22 and 24 were amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

54E. **Paragraph 48 was amended by IPSAS 42 issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.**

55. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 24.

Scope of the Standard

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. In many jurisdictions, legislation or other authority requires public sector entities, whether the government or a particular government entity, to make public the approved budget(s) for which they are held accountable. Such disclosure is required in the interest of transparency of government. In some cases, a government or government entity not subject to such legislation or other authority may voluntarily elect to make its approved budget publicly available. This Standard applies to governments and government entities that make publicly available the approved budget(s) for which they are held accountable.

BC3. The approved budget reflects the financial characteristics of the government's or other entity's plans for the forthcoming period and, in respect of activities funded from the government budget, represent the authority to expend funds. Reporting the results of budget execution against those financial plans will enhance the transparency of financial statements, and is an important element in the discharge of accountability of entities which are required to, or elect to, make their budget(s) publicly available. The inclusion of a comparison of budget and actual amounts in financial statements will provide financial information to assist users to assess whether resources were raised as anticipated and used in accordance with the budget(s) approved by the legislature or other authoritative body. This Standard uses the term actual or actual amount to describe the amounts that result from execution of the budget. In other jurisdictions, budget out-turn, budget execution, or similar terms may be used with the same meaning as actual or actual amount.

BC4. Many governments and government entities that make publicly available their approved budget(s) already report actual against budgeted amounts in their financial statements. They also include an explanation of material differences between actual and budget (a) in notes to their financial statements, or (b) in management discussion and analysis or similar reports, or (c) in budget out-turn or similar reports issued in conjunction with their financial statements. For these governments and government entities, comparisons of budget and actual amounts are generally made at the levels of oversight approved by the legislature or similar authority, and explanations of material differences are made where budgetary authority is exceeded. The IPSASB is of the view that this practice is appropriate, and has issued this Standard to reinforce the practice, and to require that it be adopted by all entities that make publicly available their approved budgets.

BC5. This Standard does not require entities to make publicly available their approved budgets, or specify presentation requirements for approved budgets that are made publicly available. That is beyond the scope of this Standard. However, the IPSASB has indicated that in the future it will consider whether an IPSAS should be developed to deal with these matters.

Need for an International Public Sector Accounting Standard

BC6. IPSAS 1 explains that the purpose of financial statements encompasses the disclosure of information to discharge the entity's obligation (a) to be accountable for such matters as its financial position, performance, and cash flows, and (b) to provide information useful to assess its performance in terms of its service costs, efficiency, and accomplishments. It also notes that financial reporting may provide users with information about an entity's compliance with, for example, the legally adopted budget.

BC7. Prior to issue of this Standard, IPSAS 1 encouraged, but did not require, financial statements to include a comparison of budget and actual amounts where the financial statements and the budget are on the same basis. However, in some cases, an entity may make public an approved budget prepared and presented on a different basis to the financial statements, and elect to include in financial statements a comparison of actual and budget. IPSAS 1 did not provide guidance on the details to be disclosed or the manner of presentation in such circumstances. The IPSASB is of the view that IPSAS should deal with such circumstances.

BC8. This Standard applies where an entity is required to make publicly available its approved budget(s), or elects to do so. The IPSASB is of the view that, in such cases, the intent and effect of the legislature or other authority, or the voluntary action of the entity itself, is clear – the entity is held publicly accountable for its performance against and compliance with the budget. The IPSASB is also of the view that disclosure of information about budget and actual amounts is a necessary element for the discharge of accountability for such entities, and requirements to ensure appropriate disclosure in financial statements should be included in an IPSAS.

BC9. The application of the requirements of this Standard for the disclosure of a comparison of actual and budget amounts, where the financial statements and the budget are prepared on the same basis, will further enhance the discharge of the entity's accountability for its performance. The application of the requirements of this Standard, where the budget and the financial statements are prepared on different bases, will reinforce the role of financial statements in discharging the entity's obligation to be accountable for its compliance with approved budgets.

BC10. When this Standard was issued, the IPSASB considered whether it should require or encourage all public sector entities other than [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) to make publicly available their approved budgets and to comply with the requirements of this Standard. The IPSASB noted that the purpose of this Standard was not to specify whether approved budgets should be made publicly available, and agreed that it should not impose such requirements on entities or add to existing encouragements until it had further considered its role in respect of developing requirements for budget reporting. The IPSASB also noted that public sector entities that do not make publicly available their approved budgets are not prohibited from applying the requirements of this Standard if they choose to do so.

Comparisons with Approved Budget

BC11. This Standard requires disclosure of the original and final budget amounts and actual amounts on a comparable basis with the budget amounts. This reinforces the compliance component of accountability identified in IPSAS 1. Users of the financial statements will be able to identify and determine the differences between amounts in the original and/or final approved budget and their equivalent actual amounts (often referred to as "variances" in accounting) for each level of legislative oversight disclosed.

BC12. This Standard requires an explanation of material differences (whether positive or negative) between actual and budget amounts to be made by way of note disclosure in the financial statements, unless such explanation is included in other publicly available documents issued in conjunction with the financial statements. The IPSASB is of the view that disclosure of this information will enhance the transparency of financial statements, and strengthen the accountability of entities that make their budgets publicly available. The explanation of such differences may be included in a management discussion and analysis, operations review, budget out-turn, or similar report issued in conjunction with the financial statements. The IPSASB is of the view that where explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.

Disclosure of Original and Final Budget

BC13. Budgets are prepared in advance of the reporting period, and the occurrence of natural disasters and changes in political or economic conditions may dictate a need for revisions to the initially approved budget during the budget period. In some jurisdictions, the authority for such revisions (within specified limits) is delegated to the Minister of Finance or similar office-holder. In other jurisdictions, the revisions must be approved by the legislature. Where those revisions are authorized by the appropriate authority, they comprise the final budget for the reporting period. The IPSASB is of the view that disclosure of the original and final budget is necessary to ensure that readers of the financial statements are aware of the nature and extent of changes to the original budget that have been approved during the course of the reporting period.

BC14. Revisions to the original budget may occur as a result of policy shifts, including changes in government priorities during the reporting period, or of unanticipated economic conditions. The IPSASB is of the view that disclosure of an explanation of the reasons for changes between the original and final budget during the reporting period, including whether changes between the original and final budget are a consequence of reallocations within the budget or of other factors, is necessary for the discharge of accountability, and will provide useful input for analysis of the financial effects of changing economic conditions and of policy shifts. The explanation may be included in the notes to the financial statements or in a report issued before, at the same time as, or in conjunction with, the financial statements. As noted above in respect of explanations of budget variances, the IPSASB is of the view that where an explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.

Adoption of the Budget Basis and Reconciliation of Budget and Accounting Bases

BC15. Entities may adopt different accounting bases for the preparation of their financial statements and for their approved budgets. In particular, some entities that adopt the accrual basis of accounting for preparation of their financial statements prepare their budgets on the cash basis. Differences between the budgetary basis and the financial statements may also arise as a consequence of timing, entity, or classification differences.

BC16. This Standard requires that the comparisons of budget and actual amounts be presented on the same basis (format, terminology, budgetary basis, and classification) and for the same entities and period as for the approved budget. This is necessary to enable the financial statements to demonstrate the extent to which actual amounts were used in accordance with legally authorized budgets. It will ensure that disclosures are made on a comparable basis, and that the financial statements demonstrate compliance with the approved budget. Consequently, amounts reflected in the financial statements will need to be recast to be comparable to the approved budget where there are basis, timing, or entity differences.

BC17. To better enable users to identify the relationship between the budget and the financial statements, this Standard requires that when the financial statements and the budget are not prepared on a comparable basis, actual amounts on the budget basis are to be reconciled to specified equivalent amounts presented in the financial statements, identifying separately any basis, timing, and entity differences. If the budget and the financial statements are prepared on the same basis, the reconciliation of differences would not be necessary.

Presentation of Budget and Actual Information

BC18. This Standard allows the budget and actual information to be presented in a separate statement or, only when the budget and the financial statements are prepared on a comparable basis, as an additional budget column in existing financial statements. Flexibility in the method of presentation allows entities to present the comparison in a manner that best serves user needs, while at the same time retaining the prominence that comes from inclusion in the financial statements. The prohibition on adopting the additional column approach for presentation when the financial statements and budget are prepared on a different basis of accounting is necessary to ensure that the comparison of budget and actual amounts are presented on a comparable basis.

Initial Application

BC19. This Standard was issued by the IPSASB in December 2006. Its application is not required until periods beginning on or after January 1, 2009. The deferred application is intended to provide sufficient time for entities to develop and, as appropriate, align their budget and financial reporting procedures, time periods and coverage. Earlier adoption of this Standard is encouraged.

BC20. The IPSASB considered whether to also provide relief from application of this Standard for two years from initial adoption of IPSAS, but considered that such relief was not necessary. This was because entities would assess, and factor into their timing for initial adoption of all IPSAS, the requirements of this Standard.

Relief from the Requirement to Disclose Comparative Amounts

BC21. This Standard does not require that the financial statements of the current period include the disclosure of a comparison of actuals of a previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

BC22. The focus of this Standard is on supporting the discharge of the entity's obligation to be accountable for its compliance with the approved budget for the current reporting period. Many explanatory disclosures required by this Standard may be located in other documents issued in conjunction with, but not as part of, the financial statements. The IPSASB is concerned that the requirement for disclosure of comparative information would result in information overload and an over-complex network of reporting requirements, and would not be in the interests of users of the financial statements.

Revision of IPSAS 24 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC23. 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 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 24 as a result of *Improvements to IPSAS*, 2018

BC24. Paragraphs 21, 22 and 24 referred to the "primary financial statements." Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term "financial statements" is used elsewhere in IPSAS with the same meaning. Consequently the IPSASB agreed to standardize the terminology and to replace the term "primary financial statements" with the term "financial statements" wherever this term occurred.

Revision of IPSAS 24 as a result of IPSAS 42, *Social Benefits*

BC25. In developing IPSAS 42, *Social Benefits*, the IPSASB noted that its definition of social benefits did not include all the transactions classified as social benefits under GFS. As some public sector entities may prepare budgets using the GFS basis, the IPSASB considered that it would be helpful to preparers to include social benefits as an example of where there may be differences in the classification schemes adopted for presentation of financial statements and the budget.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 24.

Statement of Comparison of Budget and Actual Amounts

For Government XX for the Year Ended December 31, 20XX

Budget on Cash Basis

(Classification of Payments by Functions)

Note: The budget and the accounting basis is different. This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

(in currency units)	**Budgeted Amounts** **Original**	**Final**	**Actual Amounts on Comparable Basis**	[1]*Difference: Final Budget and Actual*
RECEIPTS				
Taxation	X	X	X	X
Aid Agreements				
International agencies	X	X	X	X
Other Grants and Aid	X	X	X	X
Proceeds: Borrowing	X	X	X	X
Proceeds: Disposal of plant and equipment	X	X	X	X
Trading Activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**
PAYMENTS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social Benefits	(X)	(X)	(X)	(X)
Other social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)

1 The "Difference…" column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(in currency units)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts on Comparable Basis	[1]*Difference: Final Budget and Actual*
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**
NET RECEIPTS/(PAYMENTS)	**X**	**X**	**X**	**X**

Additional Column Approach

For Government YY for the Year Ended December 31, 20XX

Both Annual Budget and Financial Statements Adopt Accrual Basis

(Illustrated only for Statement of Financial Performance. Similar presentation would be adopted for other financial statements.)

Actual 20XX-1	(in currency units)	Actual 20XX	Final Budget 20XX	Original Budget 20XX	[2]*Difference: Original Budget and Actual*
	Revenue				
X	Taxes	X	X	X	X
X	Other compulsory contributions and levies	X	X	X	X
X	Transfers without a binding arrangement	X	X	X	X
X	Revenue from compliance obligations in a binding arrangement	X	X	X	X
X	Other revenue	X	X	X	X
X	**Total revenue**	**X**	**X**	**X**	**X**
	Expenses				
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)	(X)

2 The "Difference…" column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

Actual 20XX-1	(in currency units)	**Actual 20XX**	**Final Budget 20XX**	**Original Budget 20XX**	[2]*Difference: Original Budget and Actual*
(X)	Depreciation/amortization expense	(X)	(X)	(X)	(X)
(X)	Other expenses	(X)	(X)	(X)	(X)
(X)	Finance costs	(X)	(X)	(X)	(X)
(X)	**Total expenses**	**(X)**	**(X)**	**(X)**	**(X)**
X	Share of surplus of associates	X	X	X	X
X	**Surplus/(deficit) for the period**	**X**	**X**	**X**	**X**
	Attributable to:				
X	Owners of the controlling entity	X	X	X	X
X	Non-controlling interest	X	X	X	X
X		**X**	**X**	**X**	**X**

Extract of Note Disclosures—for Government X

(Government X presents its approved budget on a cash basis and the financial statements on the accrual basis.)

1. The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from January 1, 20XX to December 31, 20XX, and includes all entities within the general government sector. The general government sector includes all entities identified as government departments in note xx (prepared in accordance with IPSAS 35, Consolidated Financial Statements.)

2. The original budget was approved by legislative action on (date), and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies and subsequent revisions are explained more fully in the Operational Review and Budget Outcomes reports issued in conjunction with the financial statements.

3. The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.

4. The budget and the accounting bases differ. The financial statements for the whole-of-government are prepared on the accrual basis, using a classification based on the nature of expenses in the statement of financial performance. The financial statements are consolidated statements that include all controlled entities, including commercial public sector entities for the fiscal period from January 1, 20XX to December 31, 20XX. The financial statements differ from the budget which is approved on the cash basis and which deals only with the general government sector which excludes commercial public sector entities and certain other non-market government entities and activities.

5. The amounts in the financial statements were recast from the accrual basis to the cash basis, and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (commercial public sector entities) were made to express the actual amounts on a comparable basis to the final approved budget. The amount of these adjustments are identified in the following table.

6. A reconciliation between the actual amounts on a comparable basis as presented in the Statement of Comparison of Budget and Actual Amounts and the actual amounts in the Statement of Cash Flows for the Year Ended December 31, 20XX is presented below. The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the general government sector, and the financial statements consolidate all entities controlled by the government. There is also a basis difference: the budget is prepared on a cash basis and the financial statements on the accrual basis.

	Operating	**Financing**	**Investing**	**Total**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**X**	**X**	**X**	**X**
Basis Differences	**X**	**X**	**X**	**X**
Timing Differences	**-**	**-**	**-**	**-**
Entity Differences	X	**X**	**X**	**X**
Actual Amount in the Statement of Cash Flows	**X**	**X**	**X**	**X**

(This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.)

Encouraged Note Disclosure: Biennial Budget on Cash Basis—For Government B for the Year Ended December 31, 20XX

(in currency units)	**Original Biennial Budget Year**	**Target Budget for 1st Year**	**Revised Budget in 1st Year**	**1st Year Actual on Comparable Basis**	**Balance Available for 2nd Year**	**Target Budget for 2nd Year**	**Revised Budget in 2nd Year**	**2nd Year Actual on Comparable Basis**	[3]*Difference: Budget and Actual over Budget Period*
RECEIPTS									
Taxation		X	X	X	X	X	X	X	X
Aid Agreements		X	X	X	X	X	X	X	X
Proceeds: Borrowing		X	X	X	X	X	X	X	X
Proceeds: Disposal of plant and equipment		X	X	X	X	X	X	X	X
Trading Activities									
Other receipts	X	X	X	X	X	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
PAYMENTS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Social Benefits	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**

3 This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(in currency units)	**Original Biennial Budget Year**	**Target Budget for 1st Year**	**Revised Budget in 1st Year**	**1st Year Actual on Comparable Basis**	**Balance Available for 2nd Year**	**Target Budget for 2nd Year**	**Revised Budget in 2nd Year**	**2nd Year Actual on Comparable Basis**	[3]*Difference: Budget and Actual over Budget Period*
NET RECEIPTS/ (PAYMENTS)	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

International Public Sector Accounting Standard (IPSAS) 25, *Employee Benefits* has been superseded by IPSAS 39, *Employee Benefits*. This Standard applies for annual financial statements covering periods beginning on or after January 1, 2018. As a result, IPSAS 25 is no longer applicable and has been removed.

IPSAS 26—IMPAIRMENT OF CASH-GENERATING ASSETS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 36, *Impairment of Assets*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 36 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 26—IMPAIRMENT OF CASH-GENERATING ASSETS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 26, *Impairment of Cash-Generating Assets* was issued in February 2008.

Since then, IPSAS 26 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued* Operations (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 26

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011

Paragraph Affected	How Affected	Affected By
2	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010 IPSAS 31 January 2010 *Improvements to IPSAS* April 2016 *Impairment of Revalued Assets* July 2016 IPSAS 39 July 2016 IPSAS 40 January 2017 IPSAS 41 August 2018 IPSAS 44 May 2022 IPSAS 47 May 2023
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
5	Amended	*The Applicability of IPSAS* April 2016
6	Deleted	*Impairment of Revalued Assets* July 2016
7	Deleted	IPSAS 40 January 2017
8	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010 *Improvements to IPSAS* April 2016 IPSAS 44 May 2022 IPSAS 46 May 2023 IPSAS 47 May 2023
9	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
10	Amended	IPSAS 46 May 2023
10A	New	IPSAS 46 May 2023
11	Deleted	*Impairment of Revalued Assets* July 2016
12	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015 IPSAS 41 August 2018
13	Amended	IPSAS 46 May 2023
18	Amended	*The Applicability of IPSAS* April 2016
18A	New	IPSAS 40 January 2017
20A	New	IPSAS 40 January 2017
23	Amended	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
25	Amended	IPSAS 44 May 2022 IPSAS 46 May 2023
27	Amended	*Improvements to IPSAS* November 2010
29	Amended	IPSAS 47 May 2023
31	Amended	IPSAS 46 May 2023
32	Amended	IPSAS 46 May 2023
33	Amended	*Improvements to IPSAS* April 2016 IPSAS 46 May 2023
34	Amended	IPSAS 46 May 2023
35	Amended	IPSAS 46 May 2023
36	Amended	IPSAS 46 May 2023
Heading above paragraph 38	Amended	IPSAS 46 May 2023
38	Deleted	IPSAS 46 May 2023
39	Deleted	IPSAS 46 May 2023
40	Deleted	IPSAS 46 May 2023
Heading above paragraph 41	Amended	IPSAS 46 May 2023
41	Amended	IPSAS 46 May 2023
42	Amended	IPSAS 46 May 2023
66	Amended	IPSAS 46 May 2023
66A	New	IPSAS 46 May 2023
71	Amended	IPSAS 40 January 2017
73	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 45 May 2023
73A	Amended	*Impairment of Revalued Assets* July 2016 *Improvements to IPSAS* January 2020 IPSAS 45 May 2023
76	Amended	IPSAS 40 January 2017
78	Amended	IPSAS 46 May 2023
85	Amended	IPSAS 46 May 2023
87	Amended	IPSAS 46 May 2023
88	Amended	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
89	Amended	IPSAS 46 May 2023
90A	New	IPSAS 40 January 2017
90B	New	IPSAS 40 January 2017
90C	New	IPSAS 40 January 2017
90D	New	IPSAS 40 January 2017
90E	New	IPSAS 40 January 2017
90F	New	IPSAS 40 January 2017
90G	New	IPSAS 40 January 2017
90H	New	IPSAS 40 January 2017
90I	New	IPSAS 40 January 2017
90J	New	IPSAS 40 January 2017
90K	New	IPSAS 40 January 2017
90L	New	IPSAS 40 January 2017
90M	New	IPSAS 40 January 2017
90N	New	IPSAS 40 January 2017
90O	New	IPSAS 40 January 2017
91	Amended	IPSAS 40 January 2017
92	Amended	IPSAS 40 January 2017 IPSAS 46 May 2023
94	Amended	IPSAS 46 May 2023
96	Deleted	IPSAS 40 January 2017
97A	New	IPSAS 40 January 2017
97B	New	IPSAS 40 January 2017
97C	New	IPSAS 40 January 2017
97D	New	IPSAS 40 January 2017
97E	New	IPSAS 40 January 2017
97F	New	IPSAS 40 January 2017
97G	New	IPSAS 40 January 2017
97H	New	IPSAS 40 January 2017
98	Amended	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
99	Amended	IPSAS 40 January 2017
100	Amended	IPSAS 40 January 2017 IPSAS 46 May 2023
102	Amended	IPSAS 40 January 2017
103	Amended	IPSAS 40 January 2017
104	Amended	IPSAS 46 May 2023
106	Amended	IPSAS 40 January 2017
107	Amended	IPSAS 40 January 2017
108	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 40 January 2017 IPSAS 45 May 2023
108A	Amended	*Impairment of Revalued Assets* July 2016 *Improvements to IPSAS* January 2020 IPSAS 45 May 2023
110	Amended	IPSAS 40 January 2017
111	Amended	IPSAS 40 January 2017
111A	New	IPSAS 40 January 2017
111B	New	IPSAS 40 January 2017
115	Amended	*Impairment of Revalued Assets* July 2016
118	Amended	IPSAS 45 May 2023
120	Amended	IPSAS 40 January 2017 IPSAS 46 May 2023
122	Amended	IPSAS 40 January 2017
122A	New	IPSAS 40 January 2017
123	Amended	*Improvements to IPSAS* January 2010 IPSAS 40 January 2017 IPSAS 46 May 2023
124	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 40 January 2017
125	Amended	IPSAS 40 January 2017
126A	New	*Improvements to IPSAS* January 2010
126B	New	*Improvements to IPSAS* January 2010

Paragraph Affected	How Affected	Affected By
126C	New	IPSAS 31 January 2010
126D	New	IPSAS 33 January 2015
126E	New	IPSAS 35 January 2015
126F	New	*Improvements to IPSAS* April 2016
126G	New	*The Applicability of IPSAS* April 2016
126H	New	*Impairment of Revalued Assets* July 2016
126I	New	IPSAS 39 July 2016
126J	New	IPSAS 40 January 2017
126K	Amended	*COVID-19: Deferral of Effective Dates* November 2020
126L	New	*Improvements to IPSAS* January 2020
126M	New	IPSAS 44 May 2022
126N	New	IPSAS 45 May 2023
126O	New	IPSAS 46 May 2023
126P	New	IPSAS 47 May 2023
127	Amended	IPSAS 33 January 2015
IG13	Amended	IPSAS 46 May 2023
IG24	Amended	IPSAS 46 May 2023
IG25	Amended	IPSAS 46 May 2023
IG27	Amended	IPSAS 46 May 2023
IG29	Amended	IPSAS 46 May 2023

February 2008

IPSAS 26—IMPAIRMENT OF CASH-GENERATING ASSETS

CONTENT

International Public Sector Accounting Standard 26, *Impairment of Cash-Generating Assets*, is set out in paragraphs 1–127. All the paragraphs have equal authority. IPSAS 26 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired, and to ensure that impairment losses are recognized. This Standard also specifies when an entity should reverse an impairment loss, and prescribes disclosures.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:**

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

   (b) **Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with IPSAS 47, *Revenue*;**

   (c) **Financial assets that are within the scope of IPSAS 41, *Financial Instruments*;**

   (d) **Investment property that is measured at fair value (see IPSAS 16, *Investment Property*);**

   (e) [Deleted]

   (f) **Deferred tax assets (see the relevant international or national accounting standard dealing with deferred tax assets);**

   (g) **Assets arising from employee benefits (see IPSAS 39, *Employee Benefits*);**

   (h) [Deleted]

   (i) [Deleted]

   (j) **Biological assets related to agricultural activity within the scope of IPSAS 27, *Agriculture* that are measured at fair value less costs to sell;**

   (k) **Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;**

   (l) [Deleted]

   (la) **Non-current assets (or disposal groups) classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations;* and**

   (m) **Other cash-generating assets in respect of which accounting requirements for impairment are included in another Standard.**

3. [Deleted]

4. [Deleted]

5. Public sector entities that hold non-cash-generating assets as defined in paragraph 13 apply IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to such assets. Public sector entities that hold cash-generating assets apply the requirements of this Standard.

6. [Deleted]

7. [Deleted]

8. This Standard does not apply to inventories, binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement, because existing standards applicable to these assets contain requirements for recognizing and measuring such assets. This Standard does not apply to deferred tax

assets, assets related to employee benefits, or deferred acquisition costs and intangible assets arising from an insurer's contractual rights under insurance contracts. The impairment of such assets is addressed in the relevant international or national accounting standards. In addition, this Standard does not apply to biological assets related to agricultural activity that are measured at fair value less costs of disposal. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

9. This Standard does not apply to any financial assets that are included in the scope of IPSAS 28, *Financial Instruments: Presentation.* Impairment of these assets is dealt with in IPSAS 41.

10. This Standard does not require the application of an impairment test to investment property measured at fair value within the scope of IPSAS 16. Under the current value model in IPSAS 16, an investment property is carried at fair value at the reporting date, and any impairment will be taken into account in the valuation.

10A. However, this Standard applies to cash-generating assets that are carried at revalued amounts (i.e., fair value or current operational value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IPSAS, such as the current value model in IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The only difference between a cash-generating asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the cash-generating asset.

(a) If the disposal costs are negligible, the recoverable amount of the revalued cash-generating asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued cash-generating asset is impaired and recoverable amount need not be estimated.

(b) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued cash-generating asset is necessarily less than its fair value. Therefore, the revalued cash-generating asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the cash-generating asset may be impaired.

11. [Deleted]

12. Investments in:

(a) Controlled entities, as defined in IPSAS 35, *Consolidated Financial Statements*;

(b) Associates, as defined in IPSAS 36, *Investments in Associates and Joint Ventures*; and

(c) Joint arrangements, as defined in IPSAS 37, *Joint Arrangements*,

are financial assets that are excluded from the scope of IPSAS 41. Where such investments are in the nature of cash-generating assets, they are dealt with under this Standard. Where these assets are in the nature of non-cash-generating assets, they are dealt with under IPSAS 21.

Definitions

13. **The following terms are used in this Standard with the meanings specified:**

A <u>cash-generating unit</u> is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

<u>Recoverable amount</u> is the higher of an asset's or a cash-generating unit's fair value less costs of disposal and its value in use.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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.

Cash-Generating Assets

14. Cash-generating assets are assets held with the primary objective of gener-ating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a "commercial return" indicates that an entity intends to (a) generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and (b) earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to "an asset" or "assets" in the following paragraphs of this Standard are references to "cash-generating asset(s)."

15. There are a number of circumstances in which public sector entities may hold some assets with the primary objective of generating a commercial return, although the majority of their assets are not held for that purpose. For example, a hospital may deploy a building for fee-paying patients. Cash-generating assets of a public sector entity may operate independently of the non-cash-generating assets of the entity. For example, the deeds office may earn land registration fees independently from the department of land affairs.

16. In certain instances, an asset may generate cash flows although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

17. In other instances an asset may generate cash flows and also be used for non-cash-generating purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or IPSAS 21. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies this Standard, rather than IPSAS 21.

18. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable, rather than IPSAS 21. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets and with the related guidance in paragraphs 14–17. Paragraph 114 requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of public sector entities, the presumption is that assets are non-cash-generating in these circumstances and, therefore, IPSAS 21 will apply.

18A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets.

IPSAS 21 deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in IPSAS 21 includes service potential. Consequently, an entity applies this Standard to determine whether to impair goodwill.

Depreciation

19. Depreciation and amortization are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term "amortization" is generally used instead of "depreciation." Both terms have the same meaning.

Impairment

20. IPSAS 21 defines an "impairment" as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. Impairment of a cash-generating asset, therefore, reflects a decline in the future economic benefits or service potential embodied in an asset to the entity that controls it. For example, an entity may have a municipal parking garage that is currently being used at 25 percent of capacity. It is held for commercial purposes, and management has estimated that it generates a commercial rate of return when usage is at 75 percent of capacity and above. The decline in usage has not been accompanied by a significant increase in parking charges. The asset is regarded as impaired because its carrying amount exceeds its recoverable amount.

Identifying an Asset that may be Impaired

20A. Paragraphs 21–30 specify when recoverable amount shall be determined. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows:

(a) Paragraphs 31–70 set out the requirements for measuring recoverable amount. These requirements also use the term 'an asset' but apply equally to an individual asset and a cash-generating unit.

(b) Paragraphs 71–97 set out the requirements for recognizing and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 71–75. Paragraphs 76–97 deal with the recognition and measurement of impairment losses for cash-generating units and goodwill.

(c) Paragraphs 98–105 set out the requirements for reversing an impairment loss recognized in prior periods for an asset or a cash-generating unit. Again, these requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109, for a cash-generating unit in paragraphs 110–111, and for goodwill in paragraphs 111A–111B.

(d) Paragraphs 112–113 set out the requirements for the redesignation of an asset from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset.

(e) Paragraphs 114–122A specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. Paragraphs 123–125 specify additional disclosure requirements for cash-generating units to which goodwill or intangible assets with indefinite useful lives have been allocated for impairment testing purposes.

21. An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs 25–27 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount. Except for the circumstances described in

paragraph 23, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present.

22. **An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.**

23. **Irrespective of whether there is any indication of impairment, an entity shall also:**

    (a) **Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**

    (b) **Test goodwill acquired in an acquisition for impairment annually in accordance with paragraphs 90A–90O.**

24. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

25. **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

    External sources of information

    (a) **There are observable indicators that an asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use;**

    (b) **Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates, or in the market to which an asset is dedicated;**

    (c) **Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;**

    Internal sources of information

    (d) **Evidence is available of obsolescence or physical damage of an asset;**

    (e) **Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite[1];**

    (f) **A decision to halt the construction of the asset before it is complete or in a usable condition; and**

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1 Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with IPSAS 44.

(g) **Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.**

26. The list in paragraph 25 is not exhaustive. An entity may identify other indications that an asset may be impaired, and these would also require the entity to determine the asset's recoverable amount.

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

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

(b) Actual net cash flows or surplus or deficit flowing from the asset that are significantly worse than those budgeted;

(c) A significant decline in budgeted net cash flows or surplus, or a significant increase in budgeted loss, flowing from the asset; or

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

28. As indicated in paragraph 23, this Standard requires an intangible asset with an indefinite useful life or an intangible asset that is not yet available for use to be tested for impairment, at least annually. Apart from when the requirements in paragraph 23 apply, the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 25.

29. As an illustration of paragraph 28, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:

(a) If the discount rate used in calculating the asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for an asset that has a long remaining useful life.

(b) If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates, but previous sensitivity analysis of recoverable amount shows that:

(i) It is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (for example, in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly revenues arising from transactions with binding arrangements) to compensate for any increase in market rates); or

(ii) The decrease in recoverable amount is unlikely to result in a material impairment loss.

30. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortization) method, or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring Recoverable Amount

31. This Standard defines "recoverable amount" as the higher of an asset's fair value less costs of disposal and its value in use. Paragraphs 32–70 set out the requirements for measuring recoverable amount. These requirements use the term "an asset" but apply equally to an individual asset or a cash-generating unit.

32. It is not always necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

33. It may be possible to measure fair value less costs of disposal, even if there is not a quoted price in an active market for an identical asset. However, sometimes it will not be possible to measure fair value less costs of disposal because there is no basis for making a reliable[2] estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount.

34. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs of disposal, the asset's fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

35. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 85–90), unless either:

(a) The asset's fair value less costs of disposal is higher than its carrying amount; or

(b) The asset is a part of a cash-generating unit but is capable of generating cash flows individually, in which case the asset's value in use can be estimated to be close to its fair value less costs of disposal and the asset's fair value less costs of disposal can be measured.

36. In some cases, estimates, averages and computational shortcuts may provide reasonable approximations of the detailed computations for determining fair value less costs of disposal or value in use.

Measuring the Recoverable Amount of an Intangible Asset with an Indefinite Useful Life

37. Paragraph 23 requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

(a) If the intangible asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;

(b) The most recent recoverable amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and

(c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the asset's carrying amount is remote.

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[2] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Fair Value less Costs of Disposal

38. [Deleted]

39. [Deleted]

40. [Deleted]

41. Costs of disposal, other than those that have been recognized as liabilities, are deducted in measuring fair value less costs of disposal. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits and costs associated with reducing or reorganizing an operation following the disposal of an asset are not direct incremental costs to dispose of the asset.

42. Sometimes, the disposal of an asset would require the buyer to assume a liability, and only a single fair value less costs of disposal is available for both the asset and the liability. Paragraph 89 explains how to deal with such cases.

Value in Use

43. **The following elements shall be reflected in the calculation of an asset's value in use:**

    (a) **An estimate of the future cash flows the entity expects to derive from the asset;**

    (b) **Expectations about possible variations in the amount or timing of those future cash flows;**

    (c) **The time value of money, represented by the current market risk-free rate of interest;**

    (d) **The price for bearing the uncertainty inherent in the asset; and**

    (e) **Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.**

44. Estimating the value in use of an asset involves the following steps:

    (a) Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

    (b) Applying the appropriate discount rate to those future cash flows.

45. The elements identified in paragraph 43(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes. The Application Guidance provides additional guidance on the use of present value techniques in measuring an asset's value in use.

Basis for Estimates of Future Cash Flows

46. **In measuring value in use, an entity shall:**

    (a) **Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence;**

    (b) **Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance.**

Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and

(c) **Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.**

47. Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided that the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

48. Detailed, explicit, and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable, and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

49. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts, using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.

50. When conditions are favorable, competitors may enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used.

51. In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

Composition of Estimates of Future Cash Flows

52. **Estimates of future cash flows shall include:**

(a) **Projections of cash inflows from the continuing use of the asset;**

(b) **Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and**

(c) **Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.**

53. Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).

54. Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.

55. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.

56. To avoid double-counting, estimates of future cash flows do not include:

(a) Cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and

(b) Cash outflows that relate to obligations that have been recognized as liabilities (for example, payables, pensions, or provisions).

57. **Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:**

(a) **A future restructuring to which an entity is not yet committed; or**

(b) **Improving or enhancing the asset's performance.**

58. Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:

(a) Future cash outflows or related cost savings (for example, reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or

(b) Future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.

59. A restructuring is a program that is (a) planned and controlled by management, and (b) materially changes either the scope of the entity's activities or the manner in which those activities are carried out. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, contains guidance clarifying when an entity is committed to a restructuring.

60. When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:

(a) Its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and

(b) Its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with IPSAS 19.

61. Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits or service potential associated with the expected cash outflow.

62. Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits or service potential expected to arise from the asset in its current condition. When a unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is

considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.

63. **Estimates of future cash flows shall not include:**

(a) **Cash inflows or outflows from financing activities; or**

(b) **Income tax receipts or payments.**

64. Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, since the discount rate is determined on a pre-tax basis, future cash flows are also determined on a pre-tax basis.

65. **The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.**

66. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs of disposal, except that, in estimating those net cash flows:

(a) An entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used; and

(b) The entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

66A. Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:

(a) Additional value derived from the grouping of assets (such as the creation of a portfolio of investment property in different locations);

(b) Synergies between the asset being measured and other assets;

(c) Legal rights or legal restrictions that are specific only to the current owner of the asset; and

(d) Tax benefits or tax burdens that are specific to the current owner of the asset.

Foreign Currency Future Cash Flows

67. Future cash flows are estimated in the currency in which they will be generated, and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount Rate

68. **The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:**

(a) **The time value of money, represented by the current risk-free rate of interest; and**

(b) **The risks specific to the asset for which the future cash flow estimates have not been adjusted.**

69. A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing, and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

70. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The Application Guidance provides additional guidance on estimating the discount rate in such circumstances.

Recognizing and Measuring an Impairment Loss

71. Paragraphs 72–75 set out the requirements for recognizing and measuring impairment losses for an individual asset other than goodwill. The recognition and measurement of impairment losses for cash-generating units and goodwill are dealt with in paragraphs 76–97H.

72. **If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.**

73. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the current value model in IPSAS 31 and IPSAS 45). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

73A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45.

74. **When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognize a liability if, and only if, that is required by another Standard.**

75. **After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Cash-Generating Units and Goodwill

76. Paragraphs 77–97H set out the requirements for identifying the cash-generating unit to which an asset belongs and determining the carrying amount of, and recognizing impairment losses for, cash-generating units and goodwill.

Identifying the Cash-Generating Unit to which an Asset Belongs

77. **If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).**

78. The recoverable amount of an individual asset cannot be determined if:

(a) The asset's value in use cannot be estimated to be close to its fair value less costs of disposal (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and

(b) The asset does not generate cash inflows that are largely independent of those from other assets and is not capable of generating cash flows individually.

In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

79. As defined in paragraph 13, an asset's cash-generating unit is the smallest group of assets that (a) includes the asset, and (b) generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgment. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

80. Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors, including how management (a) monitors the entity's operations (such as by product lines, businesses, individual locations, districts, or regional areas), or (b) makes decisions about continuing or disposing of the entity's assets and operations. The Implementation Guidance gives an example of the identification of a cash-generating unit.

81. **If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:**

(a) **The future cash inflows used to determine the asset's or cash-generating unit's value in use; and**

(b) **The future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.**

82. Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, or to any other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if internal transfer prices do not reflect management's best estimate of future prices that could be achieved in arm's length transactions.

83. **Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.**

84. If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 120 requires disclosures about the cash-generating unit if an impairment loss is recognized or reversed for the cash-generating unit.

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

85. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs of disposal and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 31–70 to an asset is read as a reference to a cash-generating unit.

86. **The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.**

87. The carrying amount of a cash-generating unit:

(a) Includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and

(b) Does not include the carrying amount of any recognized liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

This is because fair value less costs of disposal and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognized (see paragraphs 41 and 56).

88. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate, or are used to generate, the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. The Illustrated Decision Tree provides a flow diagram illustrating the treatment of individual assets that are part of cash-generating units. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill. Paragraphs 90A–90O explain how to deal with these assets in testing a cash-generating unit for impairment.

89. It may be necessary to consider some recognized liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the price to sell the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

90. For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of (a) assets that are not part of the cash-generating unit (for example, receivables or other financial assets), or (b) liabilities that have been recognized (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Goodwill

Allocating goodwill to cash-generating units

90A. **For the purpose of impairment testing, goodwill acquired in an acquisition shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units or groups of units. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net**

cash outflows of the acquirer, the acquirer shall be considered as the cash-generating unit. Except where goodwill relates to the acquisition of a non-cash-generating operation, each unit or group of units to which the goodwill is so allocated shall:

(a) **Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and**

(b) **Not be larger than a segment as defined by paragraph 9 of IPSAS 18, *Segment Reporting.***

90B. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. Goodwill does not generate cash flows, or reductions in net cash outflows, independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, references in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to the acquirer.

90C. Applying the requirements in paragraph 90A results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.

90D. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by IPSAS 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

90E. **If the initial allocation of goodwill acquired in an acquisition cannot be completed before the end of the annual period in which the acquisition is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.**

90F. In accordance with IPSAS 40*, Public Sector Combinations*, if the initial accounting for an acquisition can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

(a) Accounts for the acquisition using those provisional values; and

(b) Recognizes any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognized in the acquisition before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 122A.

90G. **If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:**

(a) **Included in the carrying amount of the operation when determining the gain or loss on disposal; and**

(b) **Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.**

90H. **If an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.**

Testing cash-generating units with goodwill for impairment

90I. **When, as described in paragraph 90B, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph 91.**

90J. If a cash-generating unit described in paragraph 90I includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 23 requires the unit also to be tested for impairment annually.

90K. **A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss in accordance with paragraph 91.**

Timing of impairment tests

90L. **The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an acquisition during the current annual period, that unit shall be tested for impairment before the end of the current annual period.**

90M. **If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.**

90N. At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognizes any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognizes any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

90O. **The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:**

(a) **The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;**

(b) **The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and**

(c) **Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.**

Impairment Loss for a Cash-Generating Unit

91. **An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units) in the following order:**

(a) **First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and**

(b) **Then, to the other assets of the unit (group of units) on a pro rata basis, based on the carrying amount of each asset in the unit.**

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph 73.

92. **In allocating an impairment loss in accordance with paragraph 91, an entity shall not reduce the carrying amount of an asset below the highest of:**

(a) **Its fair value less costs of disposal (if measurable);**

(b) **Its value in use (if determinable); and**

(c) **Zero.**

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other cash-generating assets of the unit (group of units).

93. **Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset shall be allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit. The carrying amount of the non-cash-generating asset shall reflect any impairment losses at the reporting date that have been determined under the requirements of IPSAS 21.**

94. If the recoverable amount of an individual asset cannot be determined (see paragraph 78):

(a) An impairment loss is recognized for the asset if its carrying amount is greater than the higher of its fair value less costs of disposal and the results of the allocation procedures described in paragraphs 91–93; and

(b) No impairment loss is recognized for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs of disposal is less than its carrying amount.

95. In some cases, non-cash-generating assets contribute to cash-generating units. This Standard requires that, where a cash-generating unit subject to an impairment test contains a non-cash-generating asset, that non-cash-generating asset is tested for impairment in accordance with the requirements of IPSAS 21. A proportion of the carrying amount of that non-cash-generating asset, following that impairment test, is included in the carrying amount of the cash-generating unit. The proportion reflects the extent to which the service potential of the non-cash-generating asset contributes to the cash-generating unit. The allocation of any impairment loss for the cash-generating unit is then made on a pro rata basis to all cash-generating assets in the cash-generating unit, subject to the limits in paragraph 92. The non-cash-generating asset is not subject to a further impairment loss beyond that which has been determined in accordance with IPSAS 21.

96. [Deleted]

97. **After the requirements in paragraphs 91–93 have been applied, a liability shall be recognized for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another standard.**

Impairment testing cash-generating units with goodwill and non-controlling interests

97A. In accordance with IPSAS 40, the acquirer measures and recognizes goodwill as of the acquisition date as the excess of (a) over (b) below:

(a) The aggregate of:

(i) The consideration transferred measured in accordance with IPSAS 40, which generally requires acquisition-date fair value;

(ii) The amount of any non-controlling interest in the acquired operation measured in accordance with IPSAS 40; and

(iii) In an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IPSAS 40.

Allocation of goodwill

97B. Paragraph 90A of this Standard requires goodwill acquired in an acquisition to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units, or groups of units. It is possible that some of the synergies resulting from an acquisition will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for impairment

97C. Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.

97D. If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the controlling entity's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an impairment loss

97E. Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

97F. If a controlled entity, or part of a controlled entity, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97G. If a controlled entity, or part of a controlled entity, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:

(a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and

(b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97H. If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognized in the controlling entity's consolidated financial statements (see paragraph 97D), that impairment is not recognized as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the controlling entity is recognized as a goodwill impairment loss.

Reversing an Impairment Loss

98. Paragraphs 99–105 set out the requirements for reversing an impairment loss recognized for an asset or a cash-generating unit in prior periods. These requirements use the term "an asset," but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109, for a cash-generating unit in paragraphs 110 and 111, and for goodwill in paragraphs 111A and 111B.

99. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.**

100. **In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

(a) **There are observable indications that the asset's value has increased significantly during the period;**

(b) **Significant changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;**

(c) **Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially;**

Internal sources of information

(d) **Significant changes with a favorable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs;**

(da) **A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and**

(e) **Evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.**

101. Indications of a potential decrease in an impairment loss in paragraph 100 mainly mirror the indications of a potential impairment loss in paragraph 25.

102. If there is an indication that an impairment loss recognized for an asset other than goodwill may no longer exist or may have decreased, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value may need to be reviewed and adjusted in accordance with the standard applicable to the asset, even if no impairment loss is reversed for the asset.

103. **An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 106, be increased to its recoverable amount. That increase is a reversal of an impairment loss.**

104. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. An entity is required to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

(a) A change in the basis for recoverable amount (i.e., whether recoverable amount is based on fair value less costs of disposal or value in use);

(b) If recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows, or in the discount rate; or

(c) If recoverable amount was based on fair value less costs of disposal, a change in estimate of the components of fair value less costs of disposal.

105. An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the unwinding of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an Impairment Loss for an Individual Asset or Class of Asset

106. **The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.**

107. Any increase in the carrying amount of an asset other than goodwill above the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the standard applicable to the asset.

108. **A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the current value model in IPSAS 31 and IPSAS 45). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

108A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or IPSAS 45.

109. **After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Reversing an Impairment Loss for a Cash-Generating Unit

110. **A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized in accordance with paragraph 108. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.**

111. **In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 110, the carrying amount of an asset shall not be increased above the lower of:**

(a) **Its recoverable amount (if determinable); and**

(b) **The carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior periods.**

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

Reversing an impairment loss for goodwill

111A. **An impairment loss recognized for goodwill shall not be reversed in a subsequent period.**

111B. IPSAS 31 prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognized for the acquired goodwill.

Redesignation of Assets

112. **The redesignation of an asset from a cash-generating asset to a non-cash- generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. At the subsequent reporting date after a redesignation, an entity shall consider, as a minimum, the listed indications in paragraph 25.**

113. There are circumstances in which public sector entities may decide that it is appropriate to redesignate a cash-generating asset as a non-cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from an industrial estate at commercial rates, and excess capacity has been used to treat effluent from a social housing unit, for which no charge is made. The industrial estate has recently closed and, in future, the site will be developed for social housing purposes. In light of the closure of the industrial estate, the public sector entity decides to redesignate the effluent treatment plant as a non-cash-generating asset.

Disclosure

114. **An entity shall disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.**

115. **An entity shall disclose the following for each class of assets:**

   (a) **The amount of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included.**

   (b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed.**

   (c) **The amount of impairment losses on revalued assets recognized directly in revaluation surplus during the period; and**

   (d) **The amount of reversals of impairment losses on revalued assets recognized directly in revaluation surplus during the period.**

116. In some cases it may be not be clear whether the primary objective of holding an asset is to generate a commercial return. That judgment is needed to determine whether to apply this Standard or IPSAS 21. Paragraph 114 requires the disclosure of the criteria used for distinguishing cash-generating and non-cash-generating assets.

117. A class of assets is a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

118. The information required in paragraph 115 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment at the beginning and end of the period, as required by IPSAS 45.

119. An entity that reports segment information in accordance with IPSAS 18, *Segment Reporting*, shall disclose the following for each reported segment based on an entity's reporting format:

   (a) The amount of impairment losses recognized in surplus or deficit during the period; and

   (b) The amount of reversals of impairment losses recognized in surplus or deficit during the period.

120. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period for a cash-generating asset (including goodwill) or a cash-generating unit:**

(a) **The events and circumstances that led to the recognition or reversal of the impairment loss;**

(b) **The amount of the impairment loss recognized or reversed;**

(c) **For a cash-generating asset:**

(i) **The nature of the asset; and**

(ii) **If the entity reports segment information in accordance with IPSAS 18, the reported segment to which the asset belongs, based on the entity's reporting format.**

(d) **For a cash-generating unit:**

(i) **A description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reported segment);**

(ii) **The amount of the impairment loss recognized or reversed by class of assets, and, if the entity reports segment information in accordance with IPSAS 18, by reported segment based on the entity's reporting format; and**

(iii) **If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.**

(e) **Whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use;**

(f) **If the recoverable amount is fair value less costs of disposal, the entity shall disclose the following information:**

(i) **The level of the fair value hierarchy (see IPSAS 46) within which the fair value measurement of the asset (cash-generating unit) is categorized in its entirety (without taking into account whether the 'costs of disposal' are observable);**

(ii) **For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the measurement technique(s) used to measure fair value less costs of disposal. If there has been a change in measurement technique, the entity shall disclose that change and the reason(s) for making it;**

(iii) **For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique; and**

(g) **If the recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.**

121. **An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognized during the period for which no information is disclosed in accordance with paragraph 120:**

(a) **The main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses; and**

(b) **The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**

122. An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets during the period. However, paragraph 123 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

122A. **If, in accordance with paragraph 90E, any portion of the goodwill acquired in an acquisition during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.**

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-Generating Units Containing Intangible Assets with Indefinite Useful Lives

123. **An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:**

(a) **The carrying amount of goodwill allocated to the unit (group of units);**

(b) **The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);**

(c) **The basis on which the unit's (group of units') recoverable amount has been determined (i.e., value in use or fair value less costs of disposal);**

(d) **If the unit's (group of units') recoverable amount is based on value in use:**

(i) **Each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;**

(ii) **A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;**

(iii) **The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;**

(iv) **The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated; and**

(v) **The discount rate(s) applied to the cash flow projections.**

(e) **If the unit's (group of units') recoverable amount is based on fair value less costs of disposal, the measurement technique(s) used to measure fair value less costs of disposal. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), an entity shall disclose the following information:**

(i) **Each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and**

(ii) **A description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**

(iia) **The level of the fair value hierarchy (see IPSAS 46) within which the fair value measurement is categorized in its entirety (without giving regard to the observability of 'costs of disposal').**

(iib) **If there has been a change in measurement technique, the change and the reason(s) for making it.**

If fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:

(iii) **The period over which management has projected cash flows;**

(iv) **The growth rate used to extrapolate cash flow projections; and**

(v) **The discount rate(s) applied to the cash flow projections.**

(f) **If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's carrying amount to exceed its recoverable amount:**

(i) **The amount by which the unit's (group of units') recoverable amount would exceed its carrying amount;**

(ii) **The value assigned to the key assumption; and**

(iii) **The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.**

124. **If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (group of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (group of units). In addition, if the recoverable amounts of any of those units (group of units) are based on the same key assumption(s), and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:**

(a) **The aggregate carrying amount of goodwill allocated to those units (groups of units);**

(b) **The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units);**

(c) **A description of the key assumption(s);**

(d) **A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and if not, how and why they differ from past experience or external sources of information;**

(e) **If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:**

(i) **The amount by which the aggregate of the units' (groups of units') recoverable amounts would exceed the aggregate of their carrying amounts;**

(ii) **The value(s) assigned to the key assumption(s); and**

(iii) **The amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.**

125. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (groups of units) may, in accordance with paragraph 37 or 90O, be carried forward and used in the impairment test for that unit (groups of units) in the current period, provided specified criteria are met. When this is the case, the information for that unit (groups of units) that is incorporated into the disclosures required by paragraphs 123 and 124 relate to the carried forward calculation of recoverable amount.

Effective Date

126. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2009. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2009, it shall disclose that fact.**

126A**.** **Paragraphs 25 and 100 were amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged if an entity also applies the amendments to paragraphs 12, 13, 29, 40, 57, 59, 62, 62A, 62B, 63, 66, and 101A of IPSAS 16 at the same time. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact.**

126B**.** **Paragraph 123 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact.**

126C**.** **IPSAS 31 amended paragraph 2(h). An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 31 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.**

126D**.** **Paragraph 127 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier**

application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.

126E. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, Joint Arrangements issued in January 2015, amended paragraph 12. An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.**

126F. **Paragraphs 2 and 8 were amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

126G. **Paragraphs 3 and 4 were deleted and paragraphs 5 and 18 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

126H. ***Impairment of Revalued Assets* (Amendments to IPSAS 21 and 26) amended paragraphs 2, 73, 108, 115 and 124, deleted paragraphs 6 and 11, and added paragraphs 73A and 108A. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies those amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

126I. **Paragraph 2 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

126J. **Paragraphs 2, 23, 71, 76, 88, 91, 92, 98–100, 102, 103, 106–108, 110, 111, 120, 122 and 123–125 were amended, paragraphs 18A, 20A, 90A–90O, 97A–97H, 111A, 111B and 122A added and paragraphs 7 and 96 deleted by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

126K. **Paragraphs 2, 9 and 12 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

126L. **Paragraphs 73A and 108A were amended by *Improvements to IPSAS*, 2019, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

126M. **Paragraphs 2, 8 and 25 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

126N. **Paragraphs 73, 73A, 108, 108A, and 118 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

126O. **Paragraphs 8, 10, 13, 25, 31-36, 41, 42, 66, 78, 85, 87, 89, 92, 94, 100, 104, 120, and 123 and the related heading of paragraph 41 were amended, paragraphs 10A and 66A were added, and paragraphs 38–40 were deleted by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

126P. **Paragraphs 2, 8, and 29 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

127. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 26.

Using Present Value Techniques to Measure Value in Use

This guidance uses the term "asset," but equally applies to a group of assets forming a cash-generating unit.

The Components of a Present Value Measurement

AG1. The following elements together capture the economic differences between cash-generating assets:

(a) An estimate of the future cash flow, or, in more complex cases, series of future cash flows that the entity expects to derive from the asset;

(b) Expectations about possible variations in the amount or timing of those cash flows;

(c) The time value of money, represented by the current market risk-free rate of interest;

(d) The price for bearing the uncertainty inherent in the asset; and

(e) Other, sometimes unidentifiable, factors (such as illiquidity) that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

AG2. This appendix contrasts two approaches to computing present value, either of which may be used to estimate the value in use of an asset, depending on the circumstances. Under the traditional approach, adjustments for factors (b)–(e) described in paragraph AG1 are embedded in the discount rate. Under the expected cash flow approach, factors (b), (d) and (e) cause adjustments in arriving at risk-adjusted expected cash flows. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result should be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes.

General Principles

AG3. The techniques used to estimate future cash flows and interest rates will vary from one situation to another depending on the circumstances surrounding the asset in question. However, the following general principles govern any application of present value techniques in measuring assets:

(a) Interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions will be double-counted or ignored. For example, a discount rate of 12 percent might be applied to contractual cash flows of a loan receivable. That rate reflects expectations about future defaults from loans with particular characteristics. That same 12 percent rate should not be used to discount expected cash flows, because those cash flows already reflect assumptions about future defaults.

(b) Estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question. For example, deliberately understating estimated net cash flows to enhance the apparent future profitability of an asset introduces a bias into the measurement.

(c) Estimated cash flows or discount rates should reflect the range of possible outcomes rather than a single most likely minimum or maximum possible amount.

Traditional and Expected Cash Flow Approaches to Present Value

Traditional Approach

AG4. Accounting applications of present value have traditionally used a single set of estimated cash flows and a single discount rate, often described as the rate commensurate with the risk. In effect, the traditional approach assumes that a single discount rate convention can incorporate all the expectations about the future cash flows and the appropriate risk premium. Therefore, the traditional approach places most of the emphasis on selection of the discount rate.

AG5. In some circumstances, such as those in which comparable assets can be observed in the marketplace, a traditional approach is relatively easy to apply. For assets with contractual cash flows, it is consistent with the manner in which marketplace participants describe assets, as in a 12 percent bond.

AG6. However, the traditional approach may not appropriately address some complex measurement problems, such as the measurement of non-financial assets for which no market for the item or a comparable item exists. A proper search for the rate commensurate with the risk requires analysis of at least two items − an asset that exists in the marketplace and has an observed interest rate and the asset being measured. The appropriate discount rate for the cash flows being measured must be inferred from the observable rate of interest in that other asset. To draw that inference, the characteristics of the other asset's cash flows must be similar to those of the asset being measured. Therefore, the measurer must do the following:

(a) Identify the set of cash flows that will be discounted;

(b) Identify another asset in the marketplace that appears to have similar cash flow characteristics;

(c) Compare the cash flow sets from the two items to ensure that they are similar (for example, are both sets contractual cash flows, or is one contractual and the other an estimated cash flow?);

(d) Evaluate whether there is an element in one item that is not present in the other (for example, is one less liquid than the other?); and

(e) Evaluate whether both sets of cash flows are likely to behave (i.e., vary) in a similar fashion in changing economic conditions.

Expected Cash Flow Approach

AG7. The expected cash flow approach is, in some situations, a more effective measurement tool than the traditional approach. In developing a measurement, the expected cash flow approach uses all expectations about possible cash flows instead of the single most likely cash flow. For example, a cash flow might be CU100[3] CU200, or CU300, with probabilities of 10 percent, 60 percent and 30 percent, respectively. The expected cash flow is CU220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.

AG8. The expected cash flow approach also allows use of present value techniques when the timing of cash flows is uncertain. For example, a cash flow of CU1,000 may be received in one year, two years, or three years, with probabilities of 10 percent, 60 percent, and 30 percent, respectively. The example below shows the computation of expected present value in that situation.

[3] In this and other examples monetary amounts are denominated in currency units (CU).

Present value of CU1,000 in 1 year at 5%	CU952.38	
Probability	10 %	CU95.24
Present value of CU1,000 in 2 years at 5.25%	CU902.73	
Probability	60 %	CU541.64
Present value of CU1,000 in 3 years at 5.50%	CU851.61	
Probability	30.%	CU255.48
Expected present value		CU892.36

AG9. The expected present value of CU892.36 differs from the traditional notion of a best estimate of CU902.73 (the 60 percent probability). A traditional present value computation applied to this example requires a decision about which of the possible timings of cash flows to use and, accordingly, which would not reflect the probabilities of other timings. This is because the discount rate in a traditional present value computation cannot reflect uncertainties in timing.

AG10. The use of probabilities is an essential element of the expected cash flow approach. Some question whether assigning probabilities to highly subjective estimates suggests greater precision than, in fact, exists. However, the proper application of the traditional approach (as described in paragraph AG6) requires the same estimates and subjectivity without providing the computational transparency of the expected cash flow approach.

AG11. Many estimates developed in current practice already incorporate the elements of expected cash flows informally. In addition, accountants often face the need to measure an asset using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:

(a) The estimated amount falls somewhere between CU50 and CU250, but no amount in the range is more likely than any other amount. Based on that limited information, the estimated expected cash flow is CU150 [(50+250)/2];

(b) The estimated amount falls somewhere between CU50 and CU250, and the most likely amount is CU100. However, the probabilities attached to each amount are unknown. Based on that limited information, the estimated expected cash flow is CU133.33 [(50+100+250)/3]; or

(c) The estimated amount will be CU50 (10 percent probability), CU250 (30 percent probability), or CU100 (60 percent probability). Based on that limited information, the estimated expected cash flow is CU140 [(50 × 0.10)+(250 × 0.30)+(100 × 0.60)].

In each case, the estimated expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely, or maximum amount taken alone.

AG12. The application of an expected cash flow approach is subject to a cost-benefit constraint. In some cases, an entity may have access to extensive data and may be able to develop many cash flow scenarios. In other cases, an entity may not be able to develop more than general statements about the variability of cash flows without incurring substantial cost. The entity needs to balance the cost of obtaining additional information against the additional reliability that information will bring to the measurement.

AG13. Some maintain that expected cash flow techniques are inappropriate for measuring a single item or an item with a limited number of possible outcomes. They offer an example of an asset with two possible outcomes: a 90 percent probability that the cash flow will be CU10 and a 10 percent probability that the cash flow will be CU1,000. They observe that the expected cash flow in that example is CU109, and criticize that result as not representing either of the amounts that may ultimately be paid.

AG14. Assertions like the one just outlined reflect underlying disagreement with the measurement objective. If the objective is accumulation of costs to be incurred, expected cash flows may not produce a representationally faithful estimate of the expected cost. However, this Standard is concerned with measuring the recoverable amount of an asset. The recoverable amount of the asset in this example is not likely to be CU10, even though that is the most likely cash flow. This is because a measurement of CU10 does not incorporate the uncertainty of the cash flow in the measurement of the asset. Instead, the uncertain cash flow is presented as if it were a certain cash flow. No rational entity would sell an asset with these characteristics for CU10.

Discount Rate

AG15. Whichever approach an entity adopts for measuring the value in use of an asset, interest rates used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

AG16. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The purpose is to estimate, as far as possible, a market assessment of:

(a) The time value of money for the periods until the end of the asset's useful life; and

(b) Factors (b), (d) and (e) described in paragraph AG1, to the extent those factors have not caused adjustments in arriving at estimated cash flows.

AG17. As a starting point in making such an estimate, the entity might take into account the following rates:

(a) The entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;

(b) The entity's incremental borrowing rate; and

(c) Other market borrowing rates.

AG18. However, these rates must be adjusted:

(a) To reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and

(b) To exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted.

Consideration should be given to risks such as country risk, currency risk, and price risk.

AG19. The discount rate is independent of the entity's capital structure and the way the entity financed the purchase of the asset, because the future cash flows expected to arise from an asset do not depend on the way in which the entity financed the purchase of the asset.

AG20. Paragraph 68 requires the discount rate used to be a pre-tax rate. Therefore, when the basis used to estimate the discount rate is post-tax, that basis is adjusted to reflect a pre-tax rate.

AG21. An entity normally uses a single discount rate for the estimate of an asset's value in use. However, an entity uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 26.

Development of IPSAS 26 based on the IASB's revised version of IAS 36 issued in 2004

Introduction

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. The IPSASB issued IPSAS 21, *Impairment of Non-Cash-Generating Assets*, in December 2004. IPSAS 21 prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and establishes how the impairment is recognized and measured. The majority of assets in the public sector are non-cash-generating, and the recognition and measurement requirements developed resulted in a number of differences in IPSAS 21 from International Accounting Standard, IAS 36, *Impairment of Assets.*

Need for this Standard

BC3. When this Standard was issued, IPSAS 21 had referred readers to IAS 36 (a) in order to establish whether cash-generating assets have been impaired, and (b) for accounting for the recognition and measurement of any impairment. There were benefits in incorporating requirements and guidance on the impairment of cash-generating assets in an IPSAS, so that public sector entities do not have to refer to IAS 36 when an entity has cash-generating assets. In addition, there were a number of public sector issues related to impairment. These included:

(a) Whether cash-generating property, plant, and equipment carried in accordance with the revaluation model in IPSAS 17, *Property, Plant, and Equipment* should be within the scope;

(b) Distinguishing cash-generating and non-cash-generating assets;

(c) The redesignation of cash-generating assets to non-cash-generating assets and vice-versa; and

(d) The treatment for impairment purposes of non-cash-generating assets in cash-generating units.

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that the identified relationship still applies for issue (a) above.

Exclusion of Property, Plant, and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope

BC4. When this Standard was issued in February 2008, the scope of IPSAS 21 had excluded non-cash-generating property, plant, and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 had stated that the IPSASB was of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17 would be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date, and (b) that any impairment will be taken into account in that valuation. The IPSASB therefore had considered whether a similar scope exclusion should be included in this Standard.

BC5. The IPSASB had acknowledged that property, plant, and equipment held on the revaluation model were within the scope of IAS 36, and had considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB had noted that in IAS 36, in cases where the fair value of an item of property, plant and equipment is its market value, the maximum amount of an impairment loss was the disposal costs. In the Basis for Conclusions for IPSAS 21, it was stated that "the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset." The IPSASB had considered that disposal costs are also unlikely to be material for cash-generating assets. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

BC6. For specialized cash-generating assets where fair value has not been derived from market value, IAS 36 requires recoverability to be estimated through the value in use. Because value in use is based on cash flow projection, it might be materially greater or lower than carrying amount. This analysis is also relevant in the public sector. However, it is questionable whether public sector entities hold specialized assets that meet the definition of a cash-generating asset in this Standard.

BC7. When this Standard was issued, the IPSASB had been of the view that it would be onerous to impose a requirement to test for impairment in addition to the then existing requirement in IPSAS 17, i.e., that assets would be revalued with sufficient regularity to ensure that they were carried at an amount that would not be materially different from their fair value at the reporting date. Therefore, on balance, the IPSASB had concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36, and that property, plant and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant, and equipment, intangible assets that were regularly revalued to fair value would also be excluded from the scope. In developing IPSAS 45, the IPSASB noted that current operational value can be applied instead of fair value and the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

***Impairment of Revalued Assets* (Amendments to IPSAS 21 and IPSAS 26)**

BC7A. As a consequence of requests from jurisdictions that apply IPSAS, in 2015 the IPSASB revisited the original decision to exclude revalued property, plant, and equipment and intangible assets from the scope of IPSAS 26.

BC7B. When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC5 and BC6 for the different requirements in IPSAS 26 and IAS 36 was sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as was required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31.

BC7C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they were accounted for in a similar manner. Paragraph 51 of IPSAS 17 required the entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class was revalued. Therefore, if impairment losses and reversals of impairment losses were interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, the IPSASB noted that this reasoning and consideration are still applicable.

BC7D. The IPSASB also considered it important that users are provided with the quantitative and qualitative information on impairments specified in paragraphs 120 and 121 of IPSAS 26,

BC7E. Consistent with IPSAS 21, the IPSASB's objective in clarifying the ambiguity, was to ensure that impairment losses and reversals of impairment losses of a revalued asset did not require an entity to revalue the entire class of assets to which that item belongs in order to recognize an impairment loss in respect of that item.

BC7F. Although including property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 means that an entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 will not be overly onerous for the preparers of financial statements.

BC7G. As a result of these considerations the IPSASB approved ED 57, *Impairment of Revalued Assets*, in September 2015 and published the ED the following month.

Responses to ED 57

BC7H. The majority of respondents to ED 57 supported the proposals and the IPSASB's rationale. The IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17.

BC7I. The IPSASB had acknowledged this view but had considered it inappropriate for two reasons. Firstly, such an approach did not sufficiently address the different methods of determining value in use for non-cash generating assets when evaluating an asset's recoverable service amount. Such methods are the depreciated replacement cost approach, the restoration cost approach and the service-units approach. Secondly, the approach does not provide the information needed for accountability and decision-making purposes by users that is provided by the disclosures in IPSAS 21 and IPSAS 26. The IPSASB had therefore decided to effect the proposals in ED 57 in a final pronouncement.

BC7J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they are conceptually the same. However, there was a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference was reflected in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, Impairment of Cash-Generating Assets, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, the IPSASB noted that this reasoning and consideration are still applicable.

Exclusion of Goodwill from Scope

BC8. IAS 36 contains extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment. In developing IPSAS 26, the IPSASB considered whether goodwill should be within the scope of this Standard. The IPSASB had not yet issued an IPSAS dealing with entity combinations and considered it likely that a number of public sector-specific issues would arise when combinations of public sector entities take place: in particular, whether an acquirer can always be identified in combinations of public sector entities. The IPSASB concluded that goodwill should not be within the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, users were referred to the requirements of the relevant international or national accounting standards dealing with the impairment of goodwill, the allocation of goodwill to cash-generating units, and the testing for impairment of cash-generating units with goodwill.

BC8A. IPSAS 40, Public Sector Combinations, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The

IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

BC8B. As a consequence of the IPSASB's decision that goodwill should be considered a cash-generating asset for the purposes of impairment, the IPSASB agreed to incorporate into IPSAS 26 the extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment contained in IAS 36.

Distinguishing Cash-Generating and Non-Cash-Generating Assets

BC9. The IPSASB noted that some assets have both cash-generating and non-cash-generating characteristics. The IPSASB considered whether it should adopt a components-based approach that would identify the cash-generating and non-cash-generating components of assets and subject them to different treatments. The IPSASB rejected such an approach because of cost-benefit considerations. The IPSASB concluded that assets in the public sector are generally non-cash-generating, and that an analysis of their service potential is the preferred basis to determine impairment. This Standard therefore includes a rebuttable presumption at paragraph 18 that assets that are both cash-generating and non-cash-generating should be treated as non-cash-generating assets.

Indications of Impairment: Market Capitalization

BC10. When this Standard was issued, the IPSASB considered whether the indications for impairment of cash-generating assets held by public sector entities – both external sources and internal sources of information – were similar to those in IAS 36. The IPSASB concluded that the indications in IAS 36 were relevant, except for the indication that the carrying amount of the net assets of the entity is more than its market capitalization. When this Standard was issued, the IPSASB was of the view that very few public sector entities that were not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) would issue equity instruments traded in deep markets, and that such an indication will therefore only be relevant on the consolidation of GBEs.

Fair Value less Costs of Sell and Forced Sales

BC11. In commentary on the definition of "fair value less costs to sell," IAS 36 states that "fair value less costs to sell does not reflect a forced sale," but includes a qualification: "unless management is compelled to sell immediately." IPSAS 26 does not include this qualification in paragraph 40 because there are very few circumstances in which public sector entities that are not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) will be forced to sell immediately in order to remain a going concern.

Redesignation of Assets

BC12. Cash-generating assets can become non-cash-generating assets and vice-versa. The IPSASB considered under what circumstances a redesignation of an asset from cash-generating to non-cash-generating and vice-versa should be permitted. The IPSASB concluded that a redesignation can occur only when there is clear evidence that it is appropriate. The IPSASB also concluded that a redesignation by itself does not trigger an impairment test or the reversal of an impairment loss. Instead, at the subsequent reporting date, an entity should evaluate the appropriate indicators following redesignation to determine if a test is needed. These requirements are stated in paragraph 112.

Cash-Generating Units

BC13. As in IAS 36, where it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount for the asset's cash-generating unit (CGU) will be determined. The CGU is the smallest identifiable group of assets (a) that generates cash inflows from continuing use, and (b) that is largely independent of the cash inflows from other assets or groups of assets. The IPSASB concluded that the notion of a CGU is appropriate for cash-generating assets in a public sector context.

Corporate Assets

BC14. IAS 36 includes requirements related to corporate assets. Corporate assets are defined in IAS 36 as "assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units"—that is, a corporate asset contributes only to CGUs and not to non-cash-generating activities. The IPSASB considered whether this Standard should include requirements for corporate assets as defined in IAS 36.

BC15. The primary purpose of public sector entities that are not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) is not the generation of commercial returns. Therefore, the IPSASB considers that there will be very few occasions in which an asset shared between different activities (such as an administrative building) contributes service potential to CGUs without also contributing service potential to non-cash-generating activities. It was therefore decided that it is not necessary to define, and provide requirements for, corporate assets in this Standard. Paragraph 96 refers entities to the relevant international and national accounting standard dealing with assets that do not generate cash flows independently of other assets and form part of more than one cash-generating unit, but do not contribute service potential to non-cash-generating activities.

Treatment of Non-Cash-Generating Assets in Cash-Generating Units

BC16. There are likely to be a number of cases in which public sector entities hold non-cash-generating assets that contribute service potential to CGUs in addition to non-cash-generating activities. The IPSASB considered the approach to the treatment of such non-cash-generating assets in CGUs. In particular, the IPSASB considered whether it is appropriate to include a proportion of the carrying amount of a non-cash-generating asset, following any impairment test under IPSAS 21, in the carrying amount of the CGU when comparing the carrying amount of that CGU with its recoverable amount.

BC17. The IPSASB concluded that a proportion of the carrying amount of such a non-cash-generating asset should be included in the carrying amount of the CGU. That proportion should be determined on a basis pro rata to the service potential that such an asset contributes to the CGU. If the non-cash-generating asset is ignored, the carrying amount of the CGU may be understated and impairment losses not recognized. However, because any impairment of the non-cash-generating asset will have been determined in accordance with IPSAS 21, the non-cash-generating asset will have been written down to its recoverable service amount. Therefore, no further impairment loss relating to the CGU should be applied to the non-cash-generating asset. Any impairment losses are allocated on a pro rata basis, based on carrying values, to the cash-generating assets in the CGU, subject to the limits in paragraph 92. This approach is reflected in paragraph 95.

Revision of IPSAS 26 as a result of the IASB's *Improvements to IFRS* issued in 2008

BC18. The IPSASB reviewed the revisions to IAS 36 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Revision of IPSAS 26 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC19. When IPSAS 26 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector might not be completed within one year because of the levels of approval required. This had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB had concerns that not depreciating assets for an extended period of time might be inappropriate.

(b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements might not provide relevant information for these transfers. However, the IPSASB had recognized that the measurement and disclosure requirements in IFRS 5 might be appropriate where sales are intended to take place at fair value.

(c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements might not provide relevant information for public sector discontinued operations. However, the IPSASB had recognized that the disclosure requirements in IFRS 5 might be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference might result in entities following the requirements of IFRS 5 in circumstances where this might not be appropriate. The IPSASB had noted that IPSAS 3 provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSAS. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

BC19A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 26 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC20. 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 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 26 as a result of *Improvements to IPSAS*, 2019

BC21. When this Standard was issued, the IPSASB had noted that the reference to "class of assets" in paragraphs 73A and 108A created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31, Intangible Assets and class of assets in the scope of IPSAS 17. In developing IPSAS 45, the IPSASB noted that this guidance is still applicable.

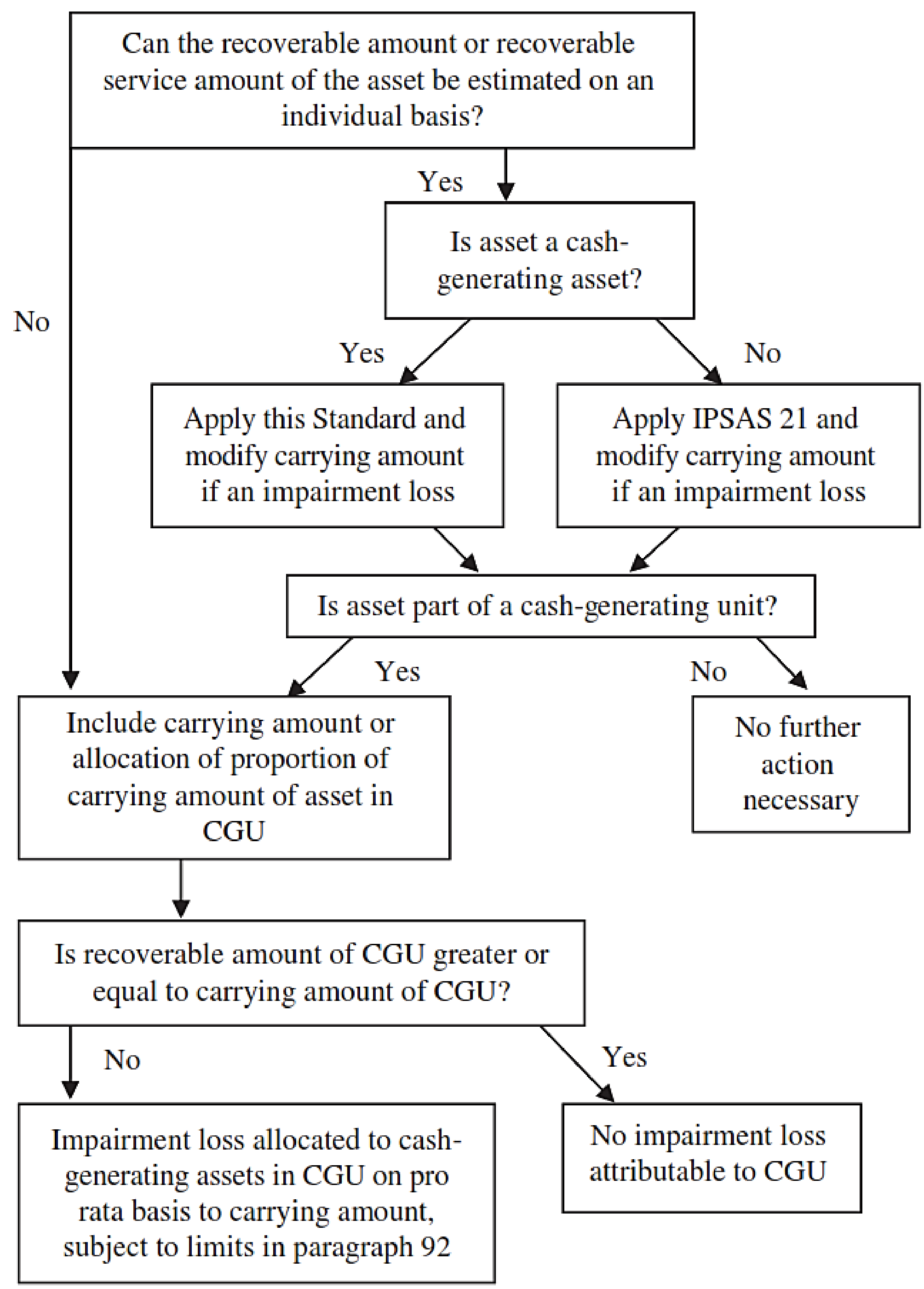
Revision of IPSAS 26 as a result of IPSAS 46, *Measurement*

BC22. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 26 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 26.

For simplicity and clarity, this flowchart assumes that any asset that is part of a CGU also contributes service potential to non-cash-generating activities. When an asset only contributes service potential to one or more CGUs, but not to non-cash-generating activities, entities refer to the relevant international and national accounting standard dealing with such circumstances in accordance with paragraph 96.



Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26.

Most assets held by public sector entities are non-cash-generating assets, and accounting for their impairment should be undertaken in accordance with IPSAS 21.

In those circumstances when an asset held by a public sector entity is held with the objective of generating a commercial return, the provisions of this Standard should be followed. Most cash-generating assets will arise in business activities run by commercial public sector entities. An example is a seed-producing unit run on a commercial basis that is part of an agricultural research entity.

For the purposes of all these examples, a public sector entity undertakes commercial activities.

Identification of Cash-Generating Units

The purpose of this example is:

(a) To indicate how cash-generating units are identified in various situations; and

(b) To highlight certain factors that an entity may consider in identifying the cash-generating unit to which an asset belongs.

A—Reduction in Demand Related to a Single-Product Unit

Background

IG1. A government has an electricity-generating utility. The utility has two turbine generators in a single electric plant. In the current period, a major manufacturing plant in the area closed and demand for power was significantly reduced. In response, the government shut down one of the generators.

Analysis

IG2. The individual turbine generators do not generate cash flows in and of themselves. Therefore the cash-generating unit to be used in determining an impairment is the electric plant as a whole.

B—Government Air Freight Unit that Leases an Aircraft

Background

IG3. M is the air freight unit of a government entity. It operates three aircraft, a landing strip, and a number of hangers and other buildings, including maintenance and fueling facilities. Because of declining demand for its services, M leases one aircraft for a five-year period to a private sector entity. Under the terms of the lease, M is required to allow the lessee to use the landing strip and is responsible for all maintenance to the aircraft.

Analysis

IG4. Because of the terms of the lease, the leased aircraft cannot be considered to generate cash inflows that are largely independent of the cash inflows from M as a whole. Therefore, it is likely that the cash-generating unit to which the aircraft belongs is M as a whole.

C—Crushing Plant in Waste Disposal Entity

Background

IG5. A municipality runs a waste disposal entity that owns a crushing plant to support its waste disposal activities. The crushing plant could be sold only for scrap value, and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the waste disposal entity.

Analysis

IG6. It is not possible to estimate the recoverable amount of the crushing plant, because its value in use cannot be determined and is probably different from the scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the crushing plant belongs, i.e., the waste disposal entity as a whole.

D—Routes Provided by Bus Company

Background

IG7. A state bus company provides services under contract with a municipality that specifies minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Analysis

IG8. Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit is the bus company as a whole.

Calculation of Value in Use and Recognition of an Impairment Loss

Background and Calculation of Value in Use

IG9. At the beginning of 20X0, Government R, through its Department of Power, puts into service a power plant that it constructed for CU250 million.

IG10. At the beginning of 20X4, power plants constructed by competitors are put into service, resulting in a reduction in the revenues produced by the power plant of Government R. Reductions in revenue result because the volume of electricity generated has decreased from expectations, and also because the prices for electricity and stand-by capacity have decreased from expectations.

IG11. The reduction in revenue is evidence that the economic performance of the asset is worse than expected. Consequently, Government R is required to determine the asset's recoverable amount.

IG12. Government R uses straight-line depreciation over a 20-year life for the power plant and anticipates no residual value.

IG13. It is not possible to determine the fair value less costs of disposal of the power plant. Therefore, recoverability can only be determined through the calculation of value in use. To determine the value in use for the power plant (see Schedule 1), Government R:

(a) Prepares cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (years 20X5-20X9) approved by management;

(b) Estimates subsequent cash flows (years 20Y0–20Y9) based on declining growth rates ranging from -6 percent per annum to -3 percent per annum; and

(c) Select a 6 percent discount rate, which represents a rate that reflects current market assessments of the time value of money and the risks specific to Government R's power plant.

Recognition and Measurement of Impairment Loss

IG14. The recoverable amount of Government R's power plant is CU121.1 million.

IG15. Government R compares the recoverable amount of the power plant to its carrying amount (see Schedule 2).

IG16. Because the carrying amount exceeds the recoverable amount by CU78.9 million, an impairment loss of CU78.9 million is recognized immediately in surplus or deficit.

Schedule 1—Calculation of the Value in Use of Government R's Power Plant at the End of 20X4

Year	Long-term growth rates	Future cash flows	Present value factor at 6% discount rate[§]	Discounted future cash flows (CUm)
20X5 (n=1)		16.8 [*]	0.94340	15.8
20X6		14.4 [*]	0.89000	12.8
20X7		14.2 [*]	0.83962	11.9
20X8		14.1 [*]	0.79209	11.2
20X9		13.9 [*]	0.74726	10.4
20Y0	(6%)	13.1 [†]	0.70496	9.2
20Y1	(6%)	12.3 [†]	0.66506	8.2
20Y2	(6%)	11.6 [†]	0.62741	7.3
20Y3	(5%)	11.0 [†]	0.59190	6.5
20Y4	(5%)	10.5 [†]	0.55839	5.9
20Y5	(5%)	10.0 [†]	0.52679	5.3
20Y6	(4%)	9.6 [†]	0.49697	4.8
20Y7	(4%)	9.2 [†]	0.46884	4.3
20Y8	(3%)	8.9 [†]	0.44230	3.9
20Y9	(3%)	8.6 [†]	0.41727	3.6
Value in use				**121.1**

[*] Based on management's best estimate of net cash flow projections.

[†] Based on an extrapolation from preceding year cash flow using declining growth rates.

[§] The present value factor is calculated as $k = 1/1(+a)^n$, where a = discount rate and n = period discount.

Schedule 2—Calculation of the Impairment Loss for Government R's Power Plant at the Beginning of 20X5

Beginning of 20X5	**Total CU(m)**
Historical cost	250.0
Accumulated depreciation (20X4)	(50.0)
Carrying amount	200.0
Carrying amount after impairment loss	121.1
Impairment loss	(78.9)

Reversal of an Impairment Loss

This Example relies on the data for Government R as presented in IG9 to IG16, with supplementary information provided in this Example. In this Example, tax effects are ignored.

Background

IG17. By 20X6 some competitors have closed down power plants and this has meant that the negative impact on the revenues of Government R has been less than projected at the end of 2004. This favorable change requires the government to re-estimate the recoverable amount of the power plant.

IG18. Calculations similar to those in Example 2 show that the recoverable amount of the power plant is now CU157.7 million.

Reversal of Impairment Loss

IG19. Government R compares the recoverable amount and the net carrying amount of the power plant and reverses part of the impairment loss previously recognized at Example 2.

Non-Cash-Generating Asset that Contributes to a Cash-Generating Unit

Background

IG20. A public hospital owns and operates a Magnetic Resonance Imaging (MRI) scanner that is primarily used by wards for non-fee paying patients. However, 20% of its usage is for treatment of fee-paying patients. The fee-paying patients are accommodated and treated in a separate building that includes wards, an operating theatre, and numerous pieces of capital equipment used solely for fee-paying patients. At December 31, 20X6, the carrying value of the building and capital equipment is CU30,000. It is not possible to estimate the recoverable amount of the building and the items of capital equipment on an individual basis. Therefore, the building and capital equipment are considered as a cash-generating unit (CGU). At January 1, 20X6 the MRI scanner had a carrying value of CU3,000. A depreciation expense of CU600 is recognized for the MRI scanner at December 31, 20X6. Because there have been significant technological advances in the field, the MRI scanner is tested for impairment at December 31, 20X6 and an impairment loss of CU400 is determined, so that the carrying value of the MRI scanner at December 31, 20X6 is CU2,000.

Determination of Recoverable Amount of Cash-Generating Unit

IG21. During the year there had been a significant reduction in the number of fee-paying patients at the hospital. The CGU is therefore tested for impairment. The recoverable amount of the CGU, based on its value in use, is assessed as CU27,400. 20% of the revised carrying value of the MRI scanner (CU400) is allocated to the carrying amount of the CGU before determining the impairment loss (CU3,000). The impairment loss is allocated to the building and capital equipment pro rata based on their carrying values. No further impairment loss is allocated to the MRI scanner, as an impairment loss has already been determined under the requirements of IPSAS 21, *Impairment of Non-Cash-Generating Assets.*

Inclusion of Recognized Liabilities in Calculation of Recoverable Amount of a Cash-Generating Unit

Background

IG22. A municipality operates a waste disposal site and is required to restore the site on completion of its operations. The cost of restoration includes the replacement of the topsoil, which must be removed before waste disposal operations commence. A provision for the costs to replace the top soil was recognized as soon as the top soil was removed. The amount provided was recognized as part of the cost of the site and is being depreciated over the site's useful life. The carrying amount of the provision for restoration costs is CU500, which is equal to the present value of the restoration costs.

Impairment Testing

IG23. The municipality is testing the site for impairment. The cash-generating unit is the site as a whole. The government has received various offers to buy the site at a price of around CU800. This price reflects the fact that the buyer will assume the obligation to restore the topsoil. Disposal costs for the site are negligible. The value in use of the site is approximately CU1,200, excluding restoration costs. The carrying amount of the waste disposal site is CU1,000.

IG24. The cash-generating unit's fair value less costs of disposal is CU800. This amount includes restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs, and is estimated to be CU700 (CU1,200 minus CU500). The carrying amount of the cash-generating unit is CU500, which is the carrying amount of the site (CU1,000) minus the carrying amount of the provision for restoration costs (CU500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

Including Goodwill in the Carrying Amount of an Operation on Disposal

Background

IG24A. A municipality sells for CU100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is CU300.

Accounting Treatment

IG24B. Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 percent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

Reallocation of Goodwill when a Cash-Generating Unit is Restructured

Background

IG24C. Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Accounting Treatment

IG24D. Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Accounting Treatment of an Individual Asset in a Cash-Generating Unit dependent on whether Recoverable Amount can be Determined

Background

IG25. A holding tank at a water purification plant has suffered physical damage but is still working, although not as well as before it was damaged. The holding tank's fair value less costs of disposal is less than its carrying amount. The holding tank does not generate independent cash inflows. The smallest identifiable group of assets that includes the holding tank and generates cash inflows that are largely independent of the cash inflows from other assets is the plant to which the holding tank belongs. The recoverable amount of the plant shows that the plant taken as a whole is not impaired.

Recoverable Amount of Holding Tank Cannot be Determined

IG26. Assumption 1: Budgets/forecasts approved by management reflect no commitment of management to replace the holding tank.

IG27. The recoverable amount of the holding tank alone cannot be estimated because the holding tank's value in use:

(a) May differ from its fair value less costs of disposal; and

(b) Can be determined only for the cash-generating unit to which the holding tank belongs (the water purification plant).

The plant is not impaired. Therefore, no impairment loss is recognized for the holding tank. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the holding tank. Perhaps a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the holding tank or the pattern in which economic benefits are expected to be consumed by the entity.

Recoverable Amount of Holding Tank Can be Determined

IG28. Assumption 2: Budgets/forecasts approved by management reflect a commitment of management to replace the holding tank and sell it in the near future. Cash flows from continuing use of the holding tank until its disposal are estimated to be negligible.

IG29. The holding tank's value in use can be estimated to be close to its fair value less costs of disposal. Therefore, the recoverable amount of the holding tank can be determined, and no consideration is given to the cash-generating unit to which the holding tank belongs (i.e., the production line). Because the holding tank's fair value less costs of disposal below its carrying amount, an impairment loss is recognized for the holding tank.

COMPARISON WITH IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRS* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs of disposal. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the redesignation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.
- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue" and "statement of financial performance." The equivalent terms in IAS 36 are "income" and "income statement."

IPSAS 27—AGRICULTURE

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 41, *Agriculture* published by the International Accounting Standards Board (IASB®). Extracts from IAS 41 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 27—AGRICULTURE

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 27, *Agriculture* was issued in December 2009.

Since then, IPSAS 27 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46. *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 27

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
2	Amended	*Improvements to IPSAS* April 2016
3	Amended	*Improvements to IPSAS* April 2016 IPSAS 43 January 2022 IPSAS 45 May 2023
4	Amended	IPSAS 45 May 2023
5	Amended	*Improvements to IPSAS* April 2016
6	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
7	Deleted	*The Applicability of IPSAS* April 2016
8	Deleted	*The Applicability of IPSAS* April 2016
9	Amended	*Improvements to IPSAS* April 2016
9A	New	*Improvements to IPSAS* April 2016
9B	New	*Improvements to IPSAS* April 2016
9C	New	*Improvements to IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
13	Amended	*Improvements to IPSAS* April 2016
14	Deleted	IPSAS 46 May 2023
19	Amended	IPSAS 46 May 2023
20	Amended	IPSAS 46 May 2023
21	Deleted	IPSAS 46 May 2023
22	Deleted	IPSAS 46 May 2023
23	Deleted	IPSAS 46 May 2023
24	Deleted	IPSAS 46 May 2023
25	Deleted	IPSAS 46 May 2023
26	Amended	IPSAS 46 May 2023
27	Deleted	IPSAS 46 May 2023
28	Amended	*Improvements to IPSAS* April 2016
29	Amended	IPSAS 46 May 2023
34	Amended	*Improvements to IPSAS* April 2016 IPSAS 44 May 2022 IPSAS 46 May 2023
37	Amended	IPSAS 45 May 2023
40	Amended	*Improvements to IPSAS* April 2016
45	Deleted	IPSAS 46 May 2023
46	Deleted	IPSAS 46 May 2023
Heading above paragraph 46A	New	IPSAS 46 May 2023
46A	New	IPSAS 46 May 2023
46B	New	IPSAS 46 May 2023
46C	New	IPSAS 46 May 2023
46D	New	IPSAS 46 May 2023
46E	New	IPSAS 46 May 2023
46F	New	IPSAS 46 May 2023
48	Amended	*Improvements to IPSAS* April 2016 IPSAS 40 January 2017 IPSAS 44 May 2022

Paragraph Affected	How Affected	Affected By
55	Deleted	IPSAS 33 January 2015
56A	New	IPSAS 33 January 2015
56B	New	*Improvements to IPSAS* April 2016
56C	New	*Improvements to IPSAS* April 2016
56D	New	*Improvements to IPSAS* April 2016
56E	New	*The Applicability of IPSAS* April 2016
56F	New	IPSAS 40 January 2017
56G	New	IPSAS 43 January 2022
56H	New	IPSAS 44 May 2022
56I	New	IPSAS 45 May 2023
56J	New	IPSAS 46 May 2023
57	Amended	IPSAS 33 January 2015

IPSAS 27—AGRICULTURE

CONTENTS

International Public Sector Accounting Standard 27, *Agriculture* is set out in paragraphs 1–57. All the paragraphs have equal authority. IPSAS 27 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment and disclosures for agricultural activity.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard for the following when they relate to agricultural activity:**

   (a) **Biological assets, except for bearer plants; and**

   (b) **Agricultural produce at the point of harvest.**

3. This Standard does not apply to:

   (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and IPSAS 45, *Property, Plant, and Equipment*);

   (b) Bearer plants related to agricultural activity (see IPSAS 45). However, this Standard applies to the produce on those bearer plants.

   (c) Intangible assets related to agricultural activity (see IPSAS 31, *Intangible Assets*);

   (d) Biological assets held for the provision or supply of services; and

   (e) Right-of-use assets arising from a lease of land related to agricultural activity (see IPSAS 43, *Leases*).

4. Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph 9 of this Standard, those biological assets are not accounted for in accordance with this Standard. Where those biological assets meet the definition of an asset, other IPSAS should be considered in determining the appropriate accounting (e.g., IPSAS 12, *Inventories* and IPSAS 45).

5. This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, IPSAS 12, or another applicable Standard, is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.

6. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation forest	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil Palms	Picked fruit	Palm Oil
Rubber trees	Harvested latex	Rubber products
Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IPSAS 45. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IPSAS 27.		

7. [Deleted]

8. [Deleted]

Definitions

Agriculture-related Definitions

9. **The following terms are used in this Standard with the meanings specified:**

<u>Agricultural activity</u> is the management by an entity of the biological transformation and harvest of biological assets for:

- **Sale;**
- **Distribution at no charge or for a nominal charge; or**
- **Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.**

<u>Agricultural produce</u> is the harvested produce of the entity's biological assets.

A <u>bearer plant</u> is a living plant that:

(a) **Is used in the production and supply of agricultural produce;**

(b) **Is expected to bear produce for more than one period; and**

(c) **Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.**

A <u>biological asset</u> is a living animal or plant.

<u>Biological transformation</u> comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

<u>Costs to sell</u> are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.

A <u>group of biological assets</u> is an aggregation of similar living animals or plants.

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

9A. The following are not bearer plants:

(a) Plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);

(b) Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated for their fruit and their lumber); and

(c) Annual crops (for example, maize and wheat).

9B. When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

9C. Produce growing on bearer plants is a biological asset.

10. Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). Certain common features exist within this diversity:

(a) Capability to change. Living animals and plants are capable of biological transformation;

(b) Management of change. Management facilitates biological transformation by enhancing, or at least stabilizing, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

(c) Measurement of change. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fiber strength) or quantity (for example, progeny, weight, cubic meters, fiber length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

11. Biological transformation results in the following types of outcomes:

(a) Asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or

(b) Production of agricultural produce such as latex, tea leaf, wool, and milk.

General Definitions

12. **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.**

Recognition and Measurement

13. **An entity shall recognize a biological asset or agricultural produce when and only when:**

(a) **The entity controls the asset as a result of past events;**

(b) **It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and**

(c) **The fair value or cost of the asset can be measured reliably[1].**

14. [Deleted]

15. In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits or service potential are normally assessed by measuring the significant physical attributes.

16. **A biological asset shall be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case described in paragraph 34 where the fair value cannot be measured reliably.**

17. **Where an entity acquires a biological asset through a non-exchange transaction, the biological asset is measured on initial recognition and at each reporting date in accordance with paragraph 16.**

18. **Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IPSAS 12, or another applicable Standard.**

19. The fair value measurement of a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.

20. Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which market participant buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce in an exchange transaction may be an onerous contract, as defined in IPSAS 19*, Provisions, Contingent Liabilities and Contingent Assets*. IPSAS 19 applies to onerous contracts.

21. [Deleted]

22. [Deleted]

23. [Deleted]

24. [Deleted]

25. [Deleted]

26. An entity does not include any cash flows for financing the assets, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

27. [Deleted]

28. Cost may sometimes approximate fair value, particularly when:

    (a) Little biological transformation has taken place since initial cost incurrence (for example, for seedlings planted immediately prior to reporting date or newly acquired livestock); or

    (b) The impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).

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1 Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

29. Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to measure the fair value of the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.

Gains and Losses

30. **A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises.**

31. A loss may arise on initial recognition of a biological asset, because costs to sell are deducted in determining fair value less costs to sell of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.

32. **A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises.**

33. A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

Inability to Measure Fair Value Reliably

34. **There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available, and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations,* it is presumed that fair value can be measured reliably.**

35. The presumption in paragraph 34 can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.

36. In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.

37. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IPSAS 12, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, IPSAS 26, *Impairment of Cash-Generating Assets*, and IPSAS 45.

Disclosure

General

38. **An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.**

39. **An entity shall provide a description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.**

40. Consumable biological assets are those that are held for harvest as agricultural produce or for sale or distribution at no charge or for a nominal charge as biological assets. Examples of consumable biological assets are animals and plants for one-time use, such as livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, produce on a bearer plant and trees being grown for lumber. Bearer biological assets are those biological assets that are used repeatedly or continuously for more than one year in an agricultural activity. Bearer biological assets are not agricultural produce but, rather, are held to bear produce. Examples of types of animals that are bearer biological assets include breeding stocks (including fish and poultry), livestock from which milk is produced, and sheep or other animals used for wool production. Examples of types of plants that are bearer biological assets include trees from which fruit is harvested, vines and shrubs cultivated for the harvest of fruits, nuts, sap, resin, bark and leaf products.

41. The disclosures required by paragraph 39 would take the form of a quantified description. The quantified description may be accompanied by a narrative description.

42. In making the disclosures required by paragraph 39, an entity is also encouraged to distinguish between mature and immature biological assets, as appropriate. These distinctions provide information that may be helpful in assessing the timing of future cash flows and service potential. An entity discloses the basis for making any such distinctions.

43. Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets).

44. **If not disclosed elsewhere in information published with the financial statements, an entity shall describe:**

    (a) **The nature of its activities involving each group of biological assets; and**

    (b) **Non-financial measures or estimates of the physical quantities of:**

        (i) Each group of the entity's biological assets at the end of the period; and

        (ii) Output of agricultural produce during the period.

45. [Deleted]

46. [Deleted]

Current Value Measurement

46A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

    (a) **For agricultural assets that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

    (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

46B. To meet the objectives in paragraph 46A, an entity shall consider all the following:

    (a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 46A, an entity shall disclose additional information necessary to meet those objectives.

46C. To meet the objectives in paragraph 46A, an entity shall disclose, at a minimum, the following information for each class of agricultural assets (see paragraph 46D for information on determining appropriate classes of agricultural assets) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of agricultural assets are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of agricultural assets are those that this Standard requires or permits in the statement of financial position in particular circumstances;

(b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those agricultural assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

46D. An entity shall determine the appropriate disaggregation of agricultural assets on the basis of the following:

(a) The nature, characteristics and risks of the agricultural assets; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of agricultural assets for which disclosures about fair value measurements should be provided requires judgment. Agricultural assets will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an agricultural asset, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

46E. For each class of agricultural assets not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 46C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 46C(c). For such agricultural assets, an entity does not need to provide the other disclosures required by this Standard.

46F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

47. **An entity shall disclose:**

(a) **The existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;**

(b) **The nature and extent of restrictions on the entity's use or capacity to sell biological assets;**

(c) **The amount of commitments for the development or acquisition of biological assets; and**

(d) **Financial risk management strategies related to agricultural activity.**

48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

(a) **The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;**

(b) **Increases due to purchases;**

(c) **Increases due to assets acquired through a non-exchange transaction;**

(d) **Decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44;**

(e) **Decreases due to distributions at no charge or for a nominal charge;**

(f) **Decreases due to harvest;**

(g) **Increases resulting from public sector combinations;**

(h) **Net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and**

(i) **Other changes.**

49. The fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less costs to sell included in surplus or deficit due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).

50. transformation results in a number of types of physical change—growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits or service potential. A change in fair value of a biological asset due to harvesting is also a physical change.

51. Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of revenue or expense, the nature and amount of that item are disclosed in accordance with IPSAS 1. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

Additional Disclosures for Biological Assets Where Fair Value Cannot Be Measured Reliably

52. **If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 34) at the end of the period, the entity shall disclose for such biological assets:**

(a) **A description of the biological assets;**

(b) **An explanation of why fair value cannot be measured reliably;**

(c) **If possible, the range of estimates within which fair value is highly likely to lie;**

(d) **The depreciation method used;**

(e) **The useful lives or the depreciation rates used; and**

(f) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.**

53. **If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 34), an entity shall disclose any gain or loss recognized on disposal of such biological assets and the reconciliation required by paragraph 48 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in surplus or deficit related to those biological assets:**

(a) **Impairment losses;**

(b) **Reversals of impairment losses; and**

(c) **Depreciation.**

54. **If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:**

(a) **A description of the biological assets;**

(b) **An explanation of why fair value has become reliably measurable; and**

(c) **The effect of the change.**

Transitional Provision

55. [Deleted]

Effective Date

56. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2011. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2011, it shall disclose that fact.**

56A. **Paragraphs 55 and 57 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

56B. **Paragraphs 34 and 48 were amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

56C. **Paragraphs 2, 3, 5, 6, 9, 28 and 40 were amended and paragraphs 9A, 9B and 9C added by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply those amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.***

56D. **In the reporting period when the amendments to IPSAS 17 and IPSAS 27 from part IV *of Improvements to IPSAS 2015* is first applied an entity need not disclose the quantitative information required by**

paragraph 33(f) of IPSAS 3 for the current period. However, an entity shall present the quantitative information required by paragraph 33(f) of IPSAS 3 for each prior period presented.

56E. **Paragraphs 7 and 8 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

56F. **Paragraph 48 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall apply IPSAS 40 at the same time.**

56G. **Paragraph 3 was amended by IPSAS 43 issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

56H. **Paragraphs 34 and 48 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

56I. **Paragraphs 3, 4, 6, and 37 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

56J. **Paragraphs 19, 20, 26, 29 and 34 were amended, paragraphs 46A–46F were added, and paragraphs 14, 21–25, 27, 45 and 46 were deleted by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

57. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Appendix

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

Introduction

BC1. The IPSASB's IFRS Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to develop accrual-based IPSAS that are convergent with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual-basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the Comparison with IFRS included in each IPSAS.

Biological Assets Held for the Provision or Supply of Services

BC3. The IPSASB acknowledged that in the public sector biological assets are often held for the provision or supply of services. Examples of such biological assets include horses and dogs used for policing purposes and plants and trees in parks and gardens operated for recreational purposes. The IPSASB concluded that such biological assets are not held for use in an agricultural activity because they are not routinely managed for the purpose of measuring and monitoring the change in quality or quantity brought about by biological transformation or harvest, as described in paragraph 10. In order to clarify that such biological assets are not dealt with in this Standard the IPSASB decided to include a scope exclusion in paragraph 3(d) stating that the Standard does not apply to biological assets held for the provision or supply of services. Paragraph 4 provides examples of such scope exclusions.

Definition of Agricultural Activity

BC4. In certain jurisdictions biological assets that are part of agricultural activity may be sold or distributed to other public sector entities, non-governmental organizations or other entities at no charge or for a nominal charge. While IAS 41, *Agriculture*, from which this Standard is drawn, deals with commercial agricultural activity, the IPSASB concluded that biological assets held for distribution at no charge or for a nominal charge should be within the definition of agricultural activity, because such transactions are common in the public sector. The IPSASB therefore modified the definition from that in IAS 41 to include references to biological assets held for distribution at no charge or for a nominal charge.

Government Grants

BC5. IAS 41 specifies requirements and guidance for accounting for government grants related to biological assets that differ from the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. IPSAS 27 does not include requirements and guidance for government grants, because at the time this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* provided requirements and guidance related to government grants in non-exchange transactions. The IPSASB did not consider that accounting for government grants related to biological assets should vary from the requirements of IPSAS 23.

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

BC6. An entity may acquire a biological asset or agricultural produce in a non-exchange transaction. In accordance with this Standard, these assets would be measured at fair value less costs to sell. At the time this Standard was developed, IPSAS 23 prescribes that assets acquired through a non-exchange transaction should be measured initially at fair value as at the date of acquisition. As a result of the different measurement requirements, the IPSASB considered the appropriate measurement basis for biological assets acquired in a non-exchange transaction.

BC7. When the IPSASB debated various approaches to measuring biological assets and agricultural produce acquired through a non-exchange transaction, it considered, in particular, the following three approaches:

(a) Approach 1: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using IPSAS 23 (i.e., exclude all biological assets and agricultural produce acquired in a non-exchange transaction from the measurement requirements of this Standard);

(b) Approach 2: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using this Standard (i.e., exclude all biological assets and agricultural produce from the measurement requirements of IPSAS 23); and

(c) Approach 3: Use both IPSAS 23 and this Standard to measure biological assets and agricultural produce acquired in a non-exchange transaction.

BC8. The IPSASB rejected approach 1 because biological assets and agricultural produce acquired in exchange and non-exchange transactions would be measured differently. The IPSASB agreed that there is no reason to measure biological assets and agricultural produce acquired in a non-exchange transaction differently from those acquired in an exchange transaction because the assets are the same.

BC9. When this Standard was issued, in analyzing approach 3, the IPSASB had considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. At the time this Standard was developed, IPSAS 23.13 stated that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs were included in the amount recognized as an asset, in accordance with IPSAS 17." In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable. This implied that for other assets, an entity considered the measurement requirements of other IPSAS as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

BC10. An additional attribute relevant to the measurement of biological assets is costs to sell. The IPSASB therefore concluded that in accordance with approach 3, an entity considered the requirements of both IPSAS 23 and this Standard in measuring biological assets and agricultural produce acquired in a non-exchange transaction at fair value less costs to sell at their initial recognition. The IPSASB noted that this is the same outcome as under approach 2.

Biological Assets and Agricultural Produce to be Distributed at No Charge or for a Nominal Charge

BC11. IAS 41 addresses only biological assets and agricultural produce that will be sold. In the public sector, such assets may be managed with the objective of distributing them at no charge or for a nominal charge. Some respondents to Exposure Draft 36, *Agriculture* expressed a view that a distinction should be made between the recognition and measurement of biological assets held for sale in an exchange transaction, and biological assets held for distribution at no charge or for a nominal charge. The principle was established in IPSAS 12, *Inventories*, that inventories held for distribution at no charge or for a nominal charge should be measured at the lower of cost and current replacement cost. Cost is not an available option in this Standard unless the exception in paragraph 34 applies. Current replacement cost is defined as the cost an entity would incur to acquire the asset at the reporting date, which is an approximation of fair value less costs to sell. Accordingly, the approach in Exposure Draft 36 was not changed.

BC12. Some respondents to the Exposure Draft also questioned whether gains and losses arising from use of fair value measurement should be reported in the statement of financial performance during the transformation process. The IPSASB is of the view that the gains and losses arising from fair value measurement should be reported in the statement of financial performance because such reporting provides useful accountability information during the biological transformation process. Entities may decide to make additional disclosures to explain the impact of these reported fair value changes.

Disclosure

BC13. The IPSASB considered whether any further disclosures were justified to address public sector specific issues and added disclosure requirements to:

(a) Distinguish between consumable and bearer biological assets. This distinction is necessary because the Government Finance Statistics (GFS) Manual 2001 (GFSM 2001) classifies consumable assets as inventory, while this Standard classifies them as biological assets. The distinction allows for a better reconciliation between an entity's financial statements prepared under IPSAS and statistical measures.

(b) Distinguish between biological assets held for sale and those held for distribution at no charge or for a nominal charge. The IPSASB believes this distinction is necessary to permit users to determine the unrealized gains and losses on biological assets held for distribution at no charge or for a nominal charge.

(c) Show biological assets acquired through non-exchange transactions and biological assets held for distribution at no charge or for a nominal charge in its reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. This disclosure is required to provide appropriate information about non-exchange transactions, which are included in the scope of this Standard.

(d) Disclose separately the changes in fair value less costs to sell as a result of non-exchange transactions for biological assets held for sale and for biological assets held for distribution at no charge or for a nominal charge. It is important that information is provided on the amount of gains and losses attributable to biological assets intended for distribution at no charge or for a nominal charge to assist users of financial statements in assessing the cost of government programs.

(e) Describe the nature and extent of restrictions imposed on the entity's use or capacity to sell biological assets, such as the total and restricted amounts of such assets. The IPSASB is of the view that such disclosure provides useful information about the entity's ability to sell agricultural produce at fair value, and thus about its measurement.

Transitional Provisions

BC14. IAS 41 does not contain transitional provisions for first-time adoption of the accrual basis of accounting. When issued, this Standard contained such provisions to assist entities in applying this Standard when first adopting the accrual basis of accounting. These provisions have since been replaced by the guidance in IPSAS 33, *First-time Adoption of Accrual Basis IPSAS.*

Revision of IPSAS 27 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC15. When IPSAS 27 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders had indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector might not be completed within one year because of the levels of approval required. This had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB had concerns that not depreciating assets for an extended period of time might be inappropriate.

(b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements might not provide relevant information for these transfers. However, the IPSASB had recognized that the measurement and disclosure requirements in IFRS 5 might be appropriate where sales are intended to take place at fair value.

(c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements might not provide relevant information for public sector discontinued operations. However, the IPSASB had recognized that the disclosure requirements in IFRS 5 might be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference might result in entities following the requirements of IFRS 5 in circumstances where this might not be appropriate. The IPSASB had noted that IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSAS. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

BC15A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 27 as a result of IASB's *Narrow Scope Amendments* issued in June 2014

BC16. The IPSASB reviewed the revisions to IAS 41 included in the narrow scope amendments titled Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) issued by the IASB in June 2014 and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 27 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC17. 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 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 27 as a result of IPSAS 46, *Measurement*

BC18. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 27 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 27.

Extracts from statements of financial performance and statements of financial position are provided to show the effects of the transactions described below. These extracts do not necessarily conform to all the disclosure and presentation requirements of other Standards.

The first example illustrates how the disclosure requirements of this Standard might be put into practice for a dairy farming entity. This Standard encourages the separation of the change in fair value less costs to sell of an entity's biological assets into physical change and price change. That separation is reflected in the first example. The second example illustrates how to separate physical change and price change.

Disclosure Requirements

Statement of Financial Position

Entity XYZ	Notes	December 31, 20X8	December 31, 20X7
		Currency Unit (CU)	CU
ASSETS			
Current assets			
Cash		10,000	10,000
Receivables		88,000	65,000
Inventories		82,950	70,650
Total current assets		**180,950**	**145,650**
Non-current assets			
Bearer biological assets			
Dairy livestock – immature[2]		52,060	47,730
Dairy livestock – mature[2]		372,990	411,840
Subtotal – bearer biological assets	3	425,050	459,570
Property, plant and equipment		1,462,650	1,409,800
Total non-current assets		**1,887,700**	**1,869,370**
Total assets		**2,068,650**	**2,015,020**
LIABILITIES			
Current liabilities			
Payables		122,628	150,020
Total current liabilities		**122,628**	**150,020**
NET ASSETS/EQUITY			
Contributed capital		1,000,000	1,000,000
Accumulated surplus		946,022	865,000
Total net assets/equity		**1,946,022**	**1,865,000**
Total net assets/equity and liabilities		**2,068,650**	**2,015,020**

[2] An entity is required to provide a description of biological assets that distinguishes between consumable and bearer biological assets and between those held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. An entity is also encouraged, but not required, to distinguish between mature and immature biological assets, as appropriate. An entity discloses the basis for making any such distinctions. This example shows the disclosure of bearer biological assets on the face of the statement of financial position. Information to meet other disclosure requirements is disclosed in the notes to the financial statements, as permitted.

Statement of Financial Performance

Entity XYZ	Notes	CU Year ended December 31, 20X8
Fair value of milk produced		518,240
Gains arising from changes in fair value less costs to sell of dairy livestock held for sale	3	39,930
		558,170
Inventories used		(137,523)
Staff costs		(127,283)
Depreciation expense		(15,250)
Other operating expenses		(197,092)
		(477,148)
Surplus for the period		**81,022**

Statement of Changes in Net Assets/Equity

		Year ended December 31, 20X8	
	CU	CU	CU
	Contributed Capital	Accumulated Surplus	Total
Balance at January 1, 20X8	1,000,000	865,000	**1,865,000**
Surplus for the period	-	81,022	**81,022**
Balance at December 31, 20X8	**1,000,000**	**946,022**	**1,946,022**

Cash Flow Statement[3]

Entity XYZ	**Year ended**
	December 31, 20X8
	CU
Cash flows from operating activities	
Cash receipts from sales of milk	498,027
Cash receipts from sales of livestock	97,913
Cash paid for supplies and to employees	(504,025)
Cash paid for purchases of livestock	(23,815)
Net cash from operating activities	**68,100**
Cash flows from investing activities	
Purchase of property, plant and equipment	(68,100)
Net cash used in investing activities	**(68,100)**
Net increase in cash	**0**
Cash at beginning of the year	**10,000**
Cash at end of the year	**10,000**

Notes

1. **Operations and Principal Activities**

Entity XYZ (“the Entity”) is engaged in milk production. At December 31, 20X8, the Entity held 419 cows able to produce milk (mature bearer assets) and 137 heifers being raised to produce milk in the future (immature bearer assets). The Entity produced 157,584kg of milk with a fair value less costs to sell of CU518,240 (the fair value of this agricultural produce is determined at the time of milking) in the year ended December 31, 20X8. The Entity does not own any consumable biological assets.

2. **Accounting Policies**

Livestock and Milk

Livestock are measured at their fair value less costs to sell. The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit. Milk is initially measured at its fair value less costs to sell at the time of milking. The fair value of milk is determined based on market prices in the local area.

[3] This statement of cash flows reports cash flows from operating activities using the direct method. IPSAS 2, “Cash Flow Statements” requires that an entity reports cash flows from operating activities using either the direct method or the indirect method. IPSAS 2 encourages use of the direct method.

3. **Biological Assets**

	20X8
Reconciliation of Carrying Amounts of Dairy Livestock	**CU**
Carrying amount at January 1, 20X8	**459,570**
Increases due to purchases	26,250
Gain arising from changes in fair value less costs to sell attributable to physical changes[4]	15,350
Gain arising from changes in fair value less costs to sell attributable to price changes[5]	24,580
Decreases due to sales	(100,700)
Carrying amount at December 31, 20X8	**425,050**

4. **Financial Rish Management Strategies**

The Entity is exposed to financial risks arising from changes in milk prices. The Entity does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices. The Entity reviews its outlook for milk prices regularly in considering the need for active financial risk management.

Physical Change and Price Change

The following example illustrates how to separate physical change and price change. Separating the change in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

A herd of ten 2 year old animals was held at January 1, 20X8. One animal aged 2.5 years was purchased on July 1, 20X8 for CU108, and one animal was born on July 1, 20X8. No animals were sold or disposed of during the period. Per-unit fair values less costs to sell were as follows:

	CU	CU
2 year old animal at January 1, 20X8	100	
Newborn animal at July 1, 20X8	70	
2.5 year old animal at July 1, 20X8	108	
Newborn animal at December 31, 20X8	72	
0.5 year old animal at December 31, 20X8	80	
2 year old animal at December 31, 20X8	105	
2.5 year old animal at December 31, 20X8	111	
3 year old animal at December 31, 20X8	120	

4 Separating the increase in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

5 See footnote 4.

Fair value less costs to sell of herd at January 1, 20X8 (10 x 100)		1,000
Purchase on July 1, 20X8 (1 x 108)		108
Increase in fair value less costs to sell due to price change		
10 × (105 – 100)	50	
1 × (111 – 108)	3	
1 × (72 – 70)	2	55
Increase in fair value less costs to sell due to physical change:		
10 × (120 – 105)	150	
1 × (120 – 111)	9	
1 × (80 – 72)	8	
1 × 70	70	237
Fair value less costs to sell of herd at December 31, 20X8		
11 × 120	1,320	
1 × 80	80	1,400

COMPARISON WITH IAS 41

IPSAS 27, *Agriculture* is drawn primarily from IAS 41, *Agriculture* (2001), as amended up to December 31, 2008. The main differences between IPSAS 27 and IAS 41 are as follows:

- The definition of "agricultural activity" includes transactions for the distribution of biological assets at no charge or for a nominal charge. IAS 41 does not deal with such transactions.
- The scope section clarifies that biological assets held for the provision or supply of services are not addressed in this Standard. IAS 41 does not include such a clarification.
- IAS 41 includes requirements for government grants relating to biological assets measured at fair value less costs to sell. IPSAS 27 does not include requirements and guidance for government grants, because IPSAS 47, *Revenue* provides requirements and guidance related to government grants.
- IPSAS 27 contains requirements for the measurement at initial recognition, and at each reporting date, of biological assets acquired through a non-exchange transaction.
- This Standard contains an additional disclosure requirement for biological assets for which the entity's use or capacity to sell are subject to restrictions.
- This Standard contains a requirement to distinguish between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. IAS 41 encourages, but does not require, entities to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets, or between mature and immature biological assets, as appropriate.
- This Standard contains transitional provisions on the first-time adoption of accrual accounting. IAS 41 does not include such transitional provisions.
- IPSAS 27 uses different terminology, in certain instances, from IAS 41. The most significant examples are the use of the terms future economic benefits and service potential, surplus or deficit, and statement of financial performance in IPSAS 27. The equivalent terms in IAS 41 are future economic benefits, profit or loss, and statement of comprehensive income.

IPSAS 28—FINANCIAL INSTRUMENTS: PRESENTATION

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 32, *Financial Instruments: Presentation* and International Financial Reporting Interpretations Committee (IFRIC®) Interpretation 2 (IFRIC 2), *Members' Shares in Co-operative Entities and Similar Instruments* published by the International Accounting Standards Board (IASB®). Extracts from IAS 32 and IFRIC 2 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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E-mail: customerservices@ifrs.org

Internet: www.ifrs.org

IPSAS 28—FINANCIAL INSTRUMENTS: PRESENTATION

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 28, *Financial Instruments: Presentation* was issued in January 2010.

Since then, IPSAS 28 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2014* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 28

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
2	Amended	IPSAS 41 August 2018
3	Amended	IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 39 July 2016 IPSAS 41 August 2018
4	Amended	IPSAS 41 August 2018
7	Deleted	*The Applicability of IPSAS* April 2016
8	Deleted	*The Applicability of IPSAS* April 2016
9	Amended	IPSAS 41 August 2018
10	Amended	IPSAS 41 August 2018
14	Amended	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
28	Amended	IPSAS 41 August 2018
36	Amended	IPSAS 41 August 2018
40	Amended	*Improvements to IPSAS* January 2015
40A	New	*Improvements to IPSAS* January 2015
42	Amended	*Improvements to IPSAS* January 2015
44	Amended	*Improvements to IPSAS* January 2015
47	Amended	IPSAS 41 August 2018
48	Amended	IPSAS 41 August 2018
56	Deleted	IPSAS 33 January 2015
57	Deleted	IPSAS 33 January 2015
58	Deleted	IPSAS 33 January 2015
60A	New	*Improvements to IPSAS* January 2015
60B	New	IPSAS 33 January 2015
60C	New	IPSAS 35 January 2015 IPSAS 37 January 2015
60D	New	*The Applicability of IPSAS* April 2016
60E	New	IPSAS 39 July 2016
60F	Amended	*COVID-19: Deferral of Effective Dates* November 2020
60G	New	IPSAS 42 January 2019
60H	New	IPSAS 43 January 2022
60I	New	IPSAS 46 May 2023
60J	New	IPSAS 47 May 2023
61	Amended	IPSAS 33 January 2015
AG2	Amended	IPSAS 41 August 2018
AG16	Amended	IPSAS 43 January 2022
AG17	Amended	IPSAS 43 January 2022
AG21	Amended	IPSAS 47 May 2023
AG23	Amended	IPSAS 42 January 2019
AG46	Amended	IPSAS 47 May 2023
AG53	Amended	IPSAS 35 January 2015

Paragraph Affected	How Affected	Affected By
AG55	Amended	IPSAS 41 August 2018
AG56	Amended	IPSAS 46 May 2023
AG63	Deleted	IPSAS 41 August 2018
Heading above paragraph AG63A	New	IPSAS 41 August 2018
AG63A	New	IPSAS 41 August 2018
AG63B	New	IPSAS 41 August 2018
AG63C	New	IPSAS 41 August 2018
AG63D	New	IPSAS 41 August 2018
Heading above paragraph AG63E	New	IPSAS 41 August 2018
AG63E	New	IPSAS 41 August 2018
AG63F	New	IPSAS 41 August 2018
B19	Amended	IPSAS 41 August 2018
B21	Amended	IPSAS 41 August 2018
IE1	Amended	IPSAS 41 August 2018
IE5	Amended	IPSAS 41 August 2018

IPSAS 28—FINANCIAL INSTRUMENTS: PRESENTATION

CONTENTS

International Public Sector Accounting Standard 28*, Financial Instruments: Presentation*, is set out in paragraphs 1–62. All the paragraphs have equal authority. IPSAS 28 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish principles for presenting financial instruments as liabilities or net assets/equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends or similar distributions, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

2. The principles in this Standard complement the principles for recognizing and measuring financial assets and financial liabilities in IPSAS 41*, Financial Instruments*, and for disclosing information about them in IPSAS 30, *Financial Instruments: Disclosures.*

Scope (see also paragraphs AG3–AG9)

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:**

   (a) **Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS 35, *Consolidated Financial Statements*, IPSAS 34, *Separate Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35, or IPSAS 36 require or permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 41; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures.**

   (b) **Employers' rights and obligations under employee benefit plans, to which IPSAS 39, *Employee Benefits* applies.**

   (c) **Obligations arising from insurance contracts. However, this Standard applies to:**

      (i) **Derivatives that are embedded in insurance contracts if IPSAS 41 requires the entity to account for them separately; and**

      (ii) **Financial guarantee contracts, if the issuer applies IPSAS 41 in recognizing and measuring the contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issuer elects to apply that standard in recognizing and measuring them.**

   In addition to (i) and (ii) above, an entity may apply this Standard to insurance contracts which involve the transfer of financial risk.

   (d) **Financial instruments that are within the scope of the international or national accounting standard dealing with insurance contracts because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 13–37 and AG49–AG60 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see IPSAS 41).**

   (e) **Financial instruments, contracts and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share-based payments applies, except for:**

      (i) **Contracts within the scope of paragraphs 4–6 of this Standard, to which this Standard applies; or**

(ii) **Paragraphs 38 and 39 of this Standard, which shall be applied to treasury shares purchased, sold, issued, or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.**

4. **This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale, or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through surplus or deficit in accordance with paragraph 6 of IPSAS 41.**

5. There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

(a) When the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;

(b) When the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);

(c) When, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and

(d) When the non-financial item that is the subject of the contract is readily convertible to cash.

A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirements, and, accordingly, is within the scope of this Standard. Other contracts to which paragraph 4 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirement, and accordingly, whether they are within the scope of this Standard.

6. A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraph 5(a) or (d) is within the scope of this Standard. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirements.

7. [Deleted]

8. [Deleted]

Definitions (see also paragraphs AG10–AG48)

9. **The following terms are used in this Standard with the meanings specified:**

An <u>equity instrument</u> is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

A <u>financial instrument</u> is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

A <u>financial asset</u> is any asset that is:

(a) **Cash;**

(b) **An equity instrument of another entity;**

(c) **A contractual right:**

  (i) **To receive cash or another financial asset from another entity; or**

  (ii) **To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or**

(d) **A contract that will or may be settled in the entity's own equity instruments and is:**

  (i) **A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or**

  (ii) **A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.**

A <u>financial liability</u> is any liability that is:

(a) **A contractual obligation:**

  (i) **To deliver cash or another financial asset to another entity; or**

  (ii) **To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or**

(b) **A contract that will or may be settled in the entity's own equity instruments and is:**

  (i) **A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or**

  (ii) **A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.**

As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 15 and 16 or paragraphs 17 and 18.

10. The following terms are defined in paragraph 9 of IPSAS 41 or paragraph 10 of IPSAS 29, *Financial Instruments: Recognition and Measurement*, and are used in this Standard with the meaning specified in those Standard.

- Amortized cost of a financial asset or financial liability;
- Derecognition;
- Derivative;
- Effective interest method;
- Financial liability at fair value through surplus or deficit;
- Financial guarantee contract;
- Firm commitment;
- Forecast transaction;
- Hedge effectiveness;
- Hedged item;
- Hedging instrument;
- Held for trading;
- Regular way purchase or sale; and
- Transaction costs.

11. In this Standard, "contract" and "contractual" refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.

12. In this Standard, "entity" includes public sector entities, individuals, partnerships, incorporated bodies and trusts.

Presentation

Liabilities and Net Assets/Equity (see also paragraphs AG49–AG54)

13. **The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.**

14. When an issuer applies the definitions in paragraph 9 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

    (a) The instrument includes no contractual obligation:

        (i) To deliver cash or another financial asset to another entity; or

        (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.

    (b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

(i) A non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

(ii) A derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the issuer's own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 15 and 16 or paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraph 15 and 16 or paragraphs 17 and 18.

Puttable Instruments

15. A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all of the following features:

(a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:

(i) Dividing the entity's net assets on liquidation into units of equal amount; and

(ii) Multiplying that amount by the number of the units held by the financial instrument holder.

(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:

(i) Has no priority over other claims to the assets of the entity on liquidation; and

(ii) Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.

(c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.

(d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments as set out in subparagraph (b) of the definition of a financial liability.

(e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the surplus or deficit, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument (excluding any effects of the instrument).

16. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:

(a) Total cash flows based substantially on the surplus or deficit, the change in the recognized net assets, or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of such instrument or contract); and

(b) The effect of substantially restricting or fixing the residual return to the puttable instrument holders.

For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 15 that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the puttable instrument as an equity instrument.

Instruments, or Components of Instruments, that Impose on the Entity an Obligation to Deliver to Another Party a pro rata Share of the Net Assets of the Entity only on Liquidation

17. Some financial instruments include a contractual obligation for the issuing entity to deliver to another entity a pro rata share of its net assets only on liquidation. The obligation arises because liquidation either is certain to occur and outside the control of the entity (e.g., a limited life entity) or is uncertain to occur but is at the option of the instrument holder. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all of the following features:

(a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:

(i) Dividing the net assets of the entity on liquidation into units of equal amount; and

(ii) Multiplying that amount by the number of the units held by the financial instrument holder.

(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:

(i) Has no priority over other claims to the assets of the entity on liquidation; and

(ii) Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.

(c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments must have an identical contractual obligation for the issuing entity to deliver a pro rata share of its net assets on liquidation.

18. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:

(a) Total cash flows based substantially on the surplus or deficit, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of such instrument or contract); and

(b) The effect of substantially restricting or fixing the residual return to the instrument holders.

For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 17 that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the instrument as an equity instrument.

Reclassification of Puttable Instruments and Instruments that Impose on the Entity an Obligation to Deliver to Another Party a pro rata Share of the Net Assets of the Entity only on Liquidation

19. An entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 from the date when the instrument has all the features and meets the conditions set out in those paragraphs. An entity shall reclassify a financial instrument from the date when the instrument ceases to have all the features or meet all the conditions set out in those paragraphs. For example, if an entity redeems all its issued non-puttable instruments and any puttable instruments that remain outstanding have all of the features and meet all the conditions in paragraphs 15 and 16, the entity shall reclassify the puttable instruments as equity instruments from the date when it redeems the non-puttable instruments.

20. An entity shall account as follows for the reclassification of an instrument in accordance with paragraph 19:

(a) It shall reclassify an equity instrument as a financial liability from the date when the instrument ceases to have all of the features or meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18. The financial liability shall be measured at the instrument's fair value at the date of reclassification. The entity shall recognize in net assets/equity any difference between the carrying value of the equity instrument and the fair value of the financial liability at the date of reclassification.

(b) It shall reclassify a financial liability as an equity instrument from the date when the instrument has all of the features and meets the conditions set out in paragraphs 15 and 16 or paragraphs 17 and 18. An equity instrument shall be measured at the carrying value of the financial liability at the date of reclassification.

No Contractual Obligation to Deliver Cash or Another Financial Asset (paragraph 14(a))

21. With the exception of the circumstances described in paragraphs 15 and 16 or paragraphs 17 and 18, a critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder) or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavorable to the issuer. Although the holder of an equity instrument may be entitled to receive a pro rata share of any dividends or similar distributions declared, or distributions of the net assets/equity, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.

22. The substance of a financial instrument, rather than its legal form, governs its classification on the entity's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity instruments but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example:

(a) A preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

(b) A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. For example, open-ended mutual funds, unit trusts, partnerships and some co-operative entities may provide their unitholders or members with a right to redeem their interests in the issuer at any time for cash, which results in the unitholders' or members' interests being classified as financial liabilities, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. However, classification as a financial liability does not preclude the use of descriptors such as "net asset value attributable to unitholders" and "change in net asset value attributable to unitholders" on the face of the financial statements of an entity that has no contributed net assets/equity (such as some mutual funds and unit trusts, see Illustrative Example 7) or the use of additional disclosure to show that total members' interests comprise items such as reserves that meet the definition of net assets/equity and puttable instruments that do not (see Illustrative Example 8).

23. If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. For example:

(a) A restriction on the ability of an entity to satisfy a contractual obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the entity's contractual obligation or the holder's contractual right under the instrument.

(b) A contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.

24. A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. For example:

(a) A financial instrument may contain a non-financial obligation that must be settled if, and only if, the entity fails to make distributions or to redeem the instrument. If the entity can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.

(b) A financial instrument is a financial liability if it provides that on settlement the entity will deliver either:

(i) Cash or another financial asset; or

(ii) Its own shares whose value is determined to exceed substantially the value of the cash or other financial asset.

Although the entity does not have an explicit contractual obligation to deliver cash or another financial asset, the value of the share settlement alternative is such that the entity will settle in cash. In any event, the holder has in substance been guaranteed receipt of an amount that is at least equal to the cash settlement option (see paragraph 25).

Settlement in the Entity's Own Equity Instruments (paragraph 14(b))

25. A contract is not an equity instrument solely because it may result in the receipt or delivery of the entity's own equity instruments. An entity may have a contractual right or obligation to receive or deliver a number of its

own shares or other equity instruments that varies so that the fair value of the entity's own equity instruments to be received or delivered equals the amount of the contractual right or obligation. Such a contractual right or obligation may be for a fixed amount or an amount that fluctuates in part or in full in response to changes in a variable other than the market price of the entity's own equity instruments (e.g., an interest rate, a commodity price, or a financial instrument price). Two examples are (a) a contract to deliver as many of the entity's own equity instruments as are equal in value to CU100, and (b) a contract to deliver as many of the entity's own equity instruments as are equal in value to the value of 100 barrels of oil. Such a contract is a financial liability of the entity even though the entity must or can settle it by delivering its own equity instruments. It is not an equity instrument because the entity uses a variable number of its own equity instruments as a means to settle the contract. Accordingly, the contract does not evidence a residual interest in the entity's assets after deducting all of its liabilities.

26. Except as stated in paragraph 27, a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. For example, an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed price or for a fixed stated principal amount of a bond is an equity instrument. Changes in the fair value of a contract arising from variations in market interest rates that do not affect the amount of cash or other financial assets to be paid or received, or the number of equity instruments to be received or delivered, on settlement of the contract do not preclude the contract from being an equity instrument. Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to net assets/equity. Any consideration paid (such as the premium paid for a purchased option) is deducted directly from net assets/equity. Changes in the fair value of an equity instrument are not recognized in the financial statements.

27. If the entity's own equity instruments to be received, or delivered, by the entity upon settlement of a contract are puttable financial instruments with all of the features and meeting the conditions described in paragraphs 15 and 16, or instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation with all of the features and meeting the conditions described in paragraphs 17 and 18, the contract is a financial asset or a financial liability. This includes a contract that will be settled by the entity receiving or delivering a fixed number of such instruments in exchange for a fixed amount of cash or another financial asset.

28. With the exception of the circumstances described in paragraphs 15 and 16 or paragraphs 17 and 18, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (e.g., for the present value of the forward repurchase price, option exercise price, or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognized initially at the present value of the redemption amount, and is reclassified from net assets/equity. Subsequently, the financial liability is measured in accordance with IPSAS 41. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to net assets/equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (e.g., a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).

29. A contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability. An example is a contract for the entity to deliver 100 of its own equity instruments in return for an amount of cash calculated to equal the value of 100 barrels of oil.

Contingent Settlement Provisions

30. A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate, or taxation requirements, or the issuer's future revenues, surplus or deficit, or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:

(a) The part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;

(b) The issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or

(c) The instrument has all of the features and meets the conditions in paragraphs 15 and 16.

Settlement Options

31. **When a derivative financial instrument gives one party a choice over how it is settled (e.g., the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.**

32. An example of a derivative financial instrument with a settlement option that is a financial liability is a share option that the issuer can decide to settle net in cash or by exchanging its own shares for cash. Similarly, some contracts to buy or sell a non-financial item in exchange for the entity's own equity instruments are within the scope of this Standard because they can be settled either by delivery of the non-financial item or net in cash or another financial instrument (see paragraphs 4–6). Such contracts are financial assets or financial liabilities and not equity instruments.

Compound Financial Instruments (see also paragraphs AG55–AG60 and Illustrative Examples 9–12)

33. **The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net assets/equity component. Such components shall be classified separately as financial liabilities, financial assets, or equity instruments in accordance with paragraph 13.**

34. An entity recognizes separately the components of a financial instrument that (a) creates a financial liability of the entity and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. For example, a bond or similar instrument convertible by the holder into a fixed number of ordinary shares of the entity is a compound financial instrument. From the perspective of the entity, such an instrument comprises two components: a financial liability (a contractual arrangement to deliver cash or another financial asset) and an equity instrument (a call option granting the holder the right, for a specified period of time, to convert it into a fixed number of ordinary shares of the entity). The economic effect of issuing such an instrument is substantially the same as issuing simultaneously a debt instrument with an early settlement provision and warrants to purchase ordinary shares, or issuing a debt instrument with detachable share purchase warrants. Accordingly, in all cases, the entity presents the liability and net assets/equity components separately in its statement of financial position.

35. Classification of a convertible instrument into its components is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. Holders may not always act in the way that might be expected because, for example, the tax consequences resulting from conversion may differ among holders. Furthermore, the likelihood of conversion will change from time to time. The entity's contractual obligation to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument, or some other transaction.

36. IPSAS 41 deals with the measurement of financial assets and financial liabilities. Equity instruments evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated into its components, the net assets/equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument is included in the liability component unless it forms part of the component of net assets/equity (such as an equity conversion option). The sum of the carrying amounts assigned to the liability and the net assets/equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

37. Under the approach described in paragraph 36, the issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated net assets/equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

Treasury Shares (see also paragraph AG61)

38. **If an entity reacquires its own equity instruments, those instruments ("treasury shares") shall be deducted from net assets/equity. No gain or loss shall be recognized in surplus or deficit on the purchase, sale, issue, or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the economic entity. Consideration paid or received shall be recognized directly in net assets/equity.**

39. The amount of treasury shares held is disclosed separately either in the statement of financial position or in the notes, in accordance with IPSAS 1. An entity provides disclosure in accordance with IPSAS 20, *Related Party Disclosures* if the entity reacquires its own equity instruments from related parties.

Interest, Dividends or Similar Distributions, Losses, and Gains (see also paragraph AG62)

40. **Interest, dividends or similar distributions, losses, and gains relating to a financial instrument or a component that is a financial liability shall be recognized as revenue or expense in surplus or deficit. Distributions to holders of an equity instrument shall be recognized by the entity directly in net assets/equity. Transaction costs incurred on transactions in net assets/equity shall be accounted for as a deduction from net assets/equity.**

40A. Income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.

41. The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends or similar distributions, losses, and gains relating to that instrument are recognized as revenue or expense in surplus or deficit. Thus, dividends or similar distributions on shares wholly recognized

as liabilities are recognized as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancings of financial liabilities are recognized in surplus or deficit, whereas redemptions or refinancings of equity instruments are recognized as changes in net assets/equity. Changes in the fair value of an equity instrument are not recognized in the financial statements.

42. An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs, and stamp duties. Any related transaction costs are accounted for as a deduction from net assets/equity to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. The costs of such a transaction that is abandoned are recognized as an expense.

43. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and the net assets/equity components of the instrument in proportion to the allocation of proceeds. Transaction costs that relate jointly to more than one transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.

44. The amount of transaction costs accounted for as a deduction from net assets/equity in the period is disclosed separately in accordance with IPSAS 1.

45. Dividends or similar distributions classified as an expense are presented in the statement of financial performance either with interest on other liabilities or as a separate item. In addition to the requirements of this Standard, disclosure of interest and dividends or similar distributions is subject to the requirements of IPSAS 1 and IPSAS 30. In some circumstances, because of the differences between interest and dividends or similar distributions with respect to matters such as tax deductibility, it is desirable to disclose them separately in the statement financial performance.

46. 46. Gains and losses related to changes in the carrying amount of a financial liability are recognized as revenue or expense in surplus or deficit even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 22(b)). Under IPSAS 1 the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of financial performance when it is relevant in explaining the entity's performance.

Offsetting a Financial Asset and a Financial Liability (see also paragraphs AG63 and AG64)

47. **A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:**

(a) **Currently has a legally enforceable right to set off the recognized amounts; and**

(b) **Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.**

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see IPSAS 41, paragraph 33).

48. This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 17B–17E in IPSAS 30 for recognized financial instruments that are within the scope of paragraph 17A of IPSAS 30.

49. Offsetting a recognized financial asset and a recognized financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. Although offsetting does not give rise to recognition of a gain or loss, the derecognition of a financial instrument not only results in the removal of the previously recognized item from the statement of financial position but also may result in recognition of a gain or loss.

50. A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of set-off. Because the right of set-off is a legal right, the conditions supporting the right may vary from one legal jurisdiction to another and the laws applicable to the relationships between the parties need to be considered.

51. The existence of an enforceable right to set-off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect an entity's exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of an entity's future cash flows are not affected. When an entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.

52. An entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal operating practices, the requirements of the financial markets, and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realize the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph 42 of IPSAS 30.

53. Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organized financial market or a face-to-face exchange. In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realization of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.

54. The conditions set out in paragraph 47 are generally not satisfied and offsetting is usually inappropriate when:

(a) Several different financial instruments are used to emulate the features of a single financial instrument (a "synthetic instrument");

(b) Financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (e.g., assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;

(c) Financial or other assets are pledged as collateral for non-recourse financial liabilities;

(d) Financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (e.g., a sinking fund arrangement); or

(e) Obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

55. An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements may be commonly used to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of operations. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph 47 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph 42 of IPSAS 30.

Transition

56. [Deleted]

57. [Deleted]

58. [Deleted]

Effective Date

59. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2013, it shall disclose that fact.**

60. **An entity shall not apply this Standard before January 1, 2013, unless it also applies IPSAS 29 and IPSAS 30.**

60A. **Paragraphs 40, 42 and 44 were amended and paragraph 40A added by *Improvements to IPSAS 2014* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2015. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2015, it shall disclose that fact.**

60B. **Paragraphs 56, 57, 58 and 61 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

60C. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements* issued in January 2015, amended paragraphs 3(a) and AG53. An entity shall apply those amendments when it applies IPSAS 35, and IPSAS 37.**

60D. **Paragraphs 7 and 8 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

60E. **Paragraph 3 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1,**

2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.

60F. **Paragraphs 2, 3, 4, 9, 10, 14, 28, 36, 47, 48, AG2 and AG55 were amended, paragraph AG63 was deleted and paragraphs AG63A, AG63B, AG63C, AG63D, AG63E and AG63F were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

60G. **Paragraph AG23 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.**

60H. **Paragraphs AG16 and AG17 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

60I. **Paragraph AG56 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

60J. **Paragraphs AG21 and AG46 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

61. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Withdrawal and Replacement of IPSAS 15 (2001)

62. This Standard and IPSAS 30 supersede IPSAS 15, issued in 2001. IPSAS 15 remains applicable until IPSAS 28 and IPSAS 30 are applied or become effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 28.

AG1. This Application Guidance explains the application of particular aspects of the Standard.

AG2. The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in IPSAS 41.

Scope (paragraphs 3–6)

Financial Guarantee Contracts

AG3. Financial guarantee contracts are those contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original terms of a debt instrument. Governments may issue financial guarantees for a variety of reasons. They are often issued to further a government's policy objectives, for example, to support infrastructure projects and stabilize the financial market in times of distress. Governments and public sector entities may be granted the power to issue financial guarantees by legislation or other authority. In assessing whether a guarantee is contractual or non-contractual, an entity distinguishes the right to issue the guarantee and the actual issue of the guarantee. The right to issue the guarantee in terms of legislation or other authority is non-contractual, while the actual issue of the guarantee should be assessed using the principles in paragraph AG20 to determine whether the guarantee is contractual.

AG4. The issuing of financial guarantees in favor of a third party, whether explicitly or implicitly, may result in a contractual arrangement. Financial guarantees may be issued to a specific party or they may be issued to the holder of an instrument. Consider the following two examples:

- In a service concession arrangement, a government may issue a financial guarantee directly to the financiers of the transaction stating that, in the event of default, it would assume payment for any outstanding principal and interest payments of a loan. In this instance, the financial guarantee is explicitly issued in favor of an identified counterparty.
- Road authority A is responsible for constructing and maintaining a country's road infrastructure. It finances the construction of new roads by issuing long term bonds. National government A exercises its powers in legislation and guarantees the bond issue of road authority A. At the time the guarantee is issued, there are no specific counterparties that have been identified, rather the guarantee is implicitly issued in favor of the holders of a specific instrument.

In both these scenarios, assuming that all the other features of a contract are met, the financial guarantee is contractual in nature.

Insurance Contracts

AG5. Some economic entities in the public sector may include entities that issue insurance contracts. Those entities are within the scope of this Standard, but the insurance contracts themselves are outside the scope of this Standard.

AG6. For the purposes of this Standard, an insurance contract is a contract that exposes the insurer to identified risks of loss from events or circumstances occurring or discovered within a specified period, including death (i.e., in the case of an annuity, the survival of the annuitant), sickness, disability, property damage, injury to others, and interruption of operations. Additional guidance on insurance contracts is available in the relevant international or national standard dealing with insurance contracts.

AG7. Some financial instruments take the form of insurance contracts but principally involve the transfer of financial risks, such as market, credit, or liquidity risk. Examples of such instruments include financial guarantee contracts, reinsurance, and guaranteed investment contracts issued by public sector insurers and other entities. An entity is required to apply this Standard to certain financial guarantee contracts, and is permitted to apply this Standard to other insurance contracts that involve the transfer of financial risk.

AG8. Financial guarantee contracts are treated as financial instruments unless an entity elects to treat them as insurance contracts in accordance with this paragraph and also complies with the requirements of paragraph AG9. An entity may make this election in the following instances:

(a) If an entity previously applied accounting applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, it may continue to treat such contracts either as insurance contracts or as financial instruments in accordance with this Standard.

(b) If an entity previously did not apply accounting applicable to insurance contracts, it may elect to treat financial guarantee contracts either as insurance contracts or as financial instruments when an entity adopts this Standard.

In both (a) and (b) above, the election is made on a contract by contract basis, and the choice is irrevocable.

AG9. In accordance with paragraph 3(c), an entity treats financial guarantee contracts as financial instruments unless it elects to treat such contracts as insurance contracts in accordance with the relevant international or national standard dealing with insurance contracts. An entity is permitted to treat a financial guarantee contract as an insurance contract using a national accounting standard only if that standard requires the measurement of insurance liabilities at an amount that is not less than the carrying amount that would be determined if the relevant insurance liabilities were within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. In determining the carrying amount of insurance liabilities, an entity considers the current estimates of all cash flows arising from its insurance contracts and of related cash flows.

Definitions (paragraphs 9–12)

Financial Assets and Financial Liabilities

AG10. Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognized in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a check or similar instrument against the balance in favor of a creditor in payment of a financial liability. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, *Inventories* in accounting for any unissued currency. Currency issued as legal tender from the perspective of the issuer, is not addressed in this Standard.

AG11. Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:

(a) Accounts receivable and payable;

(b) Notes receivable and payable;

(c) Loans receivable and payable; and

(d) Bonds receivable and payable.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive).

AG12. Another type of financial instrument is one for which the economic benefit to be received or given up is a financial asset other than cash. For example, a note payable in government bonds gives the holder the contractual right to receive and the issuer the contractual obligation to deliver government bonds, not cash. The bonds are financial assets because they represent obligations of the issuing government to pay cash. The note is, therefore, a financial asset of the note holder and a financial liability of the note issuer.

AG13. "Perpetual" debt instruments (such as "perpetual" bonds, debentures and capital notes) normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. For example, an entity may issue a financial instrument requiring it to make annual payments in perpetuity equal to a stated interest rate of 8 percent applied to a stated par or principal amount of CU1,000. Assuming 8 percent to be the market rate of interest for the instrument when issued, the issuer assumes a contractual obligation to make a stream of future interest payments having a fair value (present value) of CU1,000 on initial recognition. The holder and issuer of the instrument have a financial asset and a financial liability, respectively.

AG14. A contractual right or contractual obligation to receive, deliver or exchange financial instruments is itself a financial instrument. A chain of contractual rights or contractual obligations meets the definition of a financial instrument if it will ultimately lead to the receipt or payment of cash or to the acquisition or issue of an equity instrument.

AG15. The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognized in the financial statements. Some of these contingent rights and obligations may be insurance contracts.

AG16. A lease typically creates an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under a finance lease rather than the underlying asset itself that is subject to the finance lease. Accordingly, a lessor regards a finance lease as a financial instrument. Under IPSAS 43, *Leases* a lessor does not recognize its entitlement to receive lease payments under an operating lease. The lessor continues to account for the underlying asset itself rather than any amount receivable in the future under the contract. Accordingly, a lessor does not regard an operating lease as a financial instrument, except as regards individual payments currently due and payable by the lessee.

AG17. Physical assets (such as inventories, property, plant and equipment), right-of-use assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical assets, right-of-use assets and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.

AG18. Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

AG19. Assets and liabilities in the public sector arise out of both contractual and non-contractual arrangements. Assets and liabilities arising out of non-contractual arrangements do not meet the definition of a financial asset or a financial liability.

AG20. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a "contract" for purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be contractual even though the recipient did not provide equal consideration in return i.e., the arrangement does not result in equal performance by the parties; and
- The remedy for non-performance is enforceable by law.

AG21. In the public sector, it is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from revenue transactions are accounted for in accordance with IPSAS 47, *Revenue*. If non-exchange revenue transactions are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG10–AG18 of this Standard. An entity uses the guidance in this Standard and IPSAS 47 in assessing whether a revenue transaction gives rise to a liability or an equity instrument (contribution from owners).

AG22. An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual non-exchange revenue transaction is in substance a liability or an equity instrument.

AG23. Statutory obligations can be accounted for in a number of ways:

- Obligations to pay income taxes are accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.
- Obligations to provide social benefits are accounted for in accordance with IPSAS 42, *Social Benefits*.
- Other statutory obligations are accounted for in accordance with IPSAS 19.

AG24. Constructive obligations, as defined in IPSAS 19, also do not arise from contracts and are therefore not financial liabilities.

Equity Instruments

AG25. It is not common for entities in the public sector to have contributed capital comprising equity instruments, for example, shares and other forms of unitized capital. Where entities do issue equity instruments, the ownership and use of those instruments may be restricted by legislation. For example, legislation may stipulate that shares in a public sector entity may only be owned by another public sector entity and may therefore not be used as consideration for the settlement of transactions.

AG26. Contributed capital in the public sector may also be evidenced by transfers of resources between parties. The issuance of equity instruments in respect of a transfer of resources is not essential for the transfer to meet the definition of a contribution from owners. Transfers of resources that result in an interest in the net assets/equity of an entity are distinguished from other transfers of resources because they may be evidenced by the following:

- A formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets/equity, either before the contribution occurs or at the time of the contribution. For example, on establishing a new entity, the budget office of the department of finance may deem that the initial transfers of resources to an entity establish an interest in the net assets/equity of an entity rather than provide funding to meet operational requirements.
- A formal agreement, in relation to the transfer, establishing or increasing an existing financial interest in the net assets/equity of an entity that can be sold, transferred or redeemed.

Even though transfers of resources may be evidenced by a designation or formal agreement, an entity assesses the nature of transfers of resources based on their substance and not merely their legal form.

AG27. For the purposes of this Standard, the term "equity instrument" may be used to denote the following:

- A form of unitized capital such as ordinary or preference shares;
- Transfers of resources (either designated or agreed as such between the parties to the transaction) that evidence a residual interest in the net assets of another entity; and/or
- Financial liabilities in the legal form of debt that, in substance, represent an interest in an entity's net assets.

Puttable Instruments

AG28. Where an entity's contributed capital is comprised of shares or other forms of unitized capital, these instruments may take a number of forms, for example non-puttable ordinary shares, some puttable instruments (see paragraphs 15 and 16), some instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (see paragraphs 17 and 18), some types of preference shares (see paragraphs AG49 and AG50), and warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. An entity's obligation to issue or purchase a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument of the entity (except as stated in paragraph 27). However, if such a contract contains an obligation for the entity to pay cash or another financial asset (other than a contract classified as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18), it also gives rise to a liability for the present value of the redemption amount (see paragraph AG51(a)). An issuer of non-puttable ordinary shares assumes a liability when it formally acts to make a distribution and becomes legally obliged to the shareholders to do so. This may be the case following the declaration of a dividend or when the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders.

AG29. A purchased call option or other similar contract acquired by an entity that gives it the right to reacquire a fixed number of its own equity instruments in exchange for delivering a fixed amount of cash or another financial asset is not a financial asset of the entity (except as stated in paragraph 27). Instead, any consideration paid for such a contract is deducted from net assets/equity.

The Class of Instruments that is Subordinate to all Other Classes (paragraphs 15(b) and 17(b))

AG30. One of the features of paragraphs 15 and 17 is that the financial instrument is in the class of instruments that is subordinate to all other classes.

AG31. When determining whether an instrument is in the subordinate class, an entity evaluates the instrument's claim on liquidation as if it were to liquidate on the date when it classifies the instrument. An entity shall reassess the classification if there is a change in relevant circumstances. For example, if the entity issues or redeems another financial instrument, this may affect whether the instrument in question is in the class of instruments that is subordinate to all other classes.

AG32. An instrument that has a preferential right on liquidation of the entity is not an instrument with an entitlement to a pro rata share of the net assets of the entity. For example, an instrument has a preferential right on liquidation if it entitles the holder to a fixed dividend on liquidation, in addition to a share of the entity's net assets, when other instruments in the subordinate class with a right to a pro rata share of the net assets of the entity do not have the same right on liquidation.

AG33. If an entity has only one class of financial instruments, that class shall be treated as if it were subordinate to all other classes.

Total Expected Cash Flows Attributable to the Instrument over the Life of the Instrument (paragraph 15(e))

AG34. The total expected cash flows of the instrument over the life of the instrument must be substantially based on the surplus or deficit, change in the recognized net assets, or fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. Surplus or deficit and the change in the recognized net assets shall be measured in accordance with relevant IPSAS.

Transactions Entered into by an Instrument Holder Other Than as Owner of the Entity (paragraphs 15 and 17)

AG35. The holder of a puttable financial instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation may enter into transactions with the entity in a role other than that of an owner. For example, an instrument holder also may be an employee of the entity. Only the cash flows and the contractual terms and conditions of the instrument that relate to the instrument holder as an owner of the entity shall be considered when assessing whether the instrument should be classified as an equity instrument under paragraph 15 or paragraph 17.

AG36. An example is a limited partnership that has limited and general partners. Some general partners may provide a guarantee to the entity and may be remunerated for providing that guarantee. In such situations, the guarantee and the associated cash flows relate to the instrument holders in their role as guarantors and not in their roles as owners of the entity. Therefore, such a guarantee and the associated cash flows would not result in the general partners being considered subordinate to the limited partners, and would be disregarded when assessing whether the contractual terms of the limited partnership instruments and the general partnership instruments are identical.

AG37. Another example is a surplus or deficit sharing arrangement that allocates surpluses and deficits to the instrument holders on the basis of services rendered or business generated during the current and previous years. Such arrangements are transactions with instrument holders in their role as non-owners and should not be considered when assessing the features listed in paragraph 15 or paragraph 17. However, such arrangements that allocate surpluses and deficits to instrument holders based on the nominal amount of their instruments relative to others in the class represent transactions with the instrument holders in their roles as owners and should be considered when assessing the features listed in paragraph 15 or paragraph 17.

AG38. The cash flows and contractual terms and conditions of a transaction between the instrument holder (in the role as a non-owner) and the issuing entity must be similar to an equivalent transaction that might occur between a non-instrument holder and the issuing entity.

No Other Financial Instrument or Contract with Total Cash Flows that Substantially Fixes or Restricts the Residual Return to the Instrument Holder (paragraphs 16 and 18)

AG39. A condition for classifying an equity instrument as a financial instrument that otherwise meets the criteria in paragraph 15 or paragraph 17 is that the entity has no other financial instrument or contract that has (a) total cash flows based substantially on the surplus or deficit, the change in the recognized net assets, or the change in the fair value of the recognized and unrecognized net assets of the entity and (b) the effect of substantially restricting or fixing the residual return. The following instruments, when entered into on normal commercial terms with unrelated parties, are unlikely to prevent instruments that otherwise meet the criteria in paragraph 15 or paragraph 17 from being classified as equity instruments:

(a) Instruments with total cash flows substantially based on specific assets of the entity.

(b) Instruments with total cash flows based on a percentage of revenue.

(c) Contracts designed to reward individual employees for services rendered to the entity.

(d) Contracts requiring the payment of an insignificant percentage of profit for services rendered or goods provided.

Derivative Financial Instruments

AG40. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Derivative financial instruments meet the definition of a financial instrument and, accordingly, are within the scope of this Standard.

AG41. Derivative financial instruments create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, derivative financial instruments give one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favorable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable. However, they generally[1] do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instrument, as prices in financial markets change those terms may become either favorable or unfavorable.

AG42. A put or call option to exchange financial assets or financial liabilities (i.e., financial instruments other than an entity's own equity instruments) gives the holder a right to obtain potential future economic benefits associated with changes in the fair value of the financial instrument underlying the contract. Conversely, the writer of an option assumes an obligation to forgo potential future economic benefits or bear potential losses of economic benefits associated with changes in the fair value of the underlying financial instrument. The contractual right of the holder and obligation of the writer meet the definition of a financial asset and a financial liability, respectively. The financial instrument underlying an option contract may be any financial asset, including shares in other entities and interest-bearing instruments. An option may require the writer to issue a debt instrument, rather than transfer a financial asset, but the instrument underlying the option would constitute a financial asset of the holder if the option were exercised. The option-holder's right to exchange the financial asset under potentially favorable conditions and the writer's obligation to exchange the financial asset under potentially unfavorable conditions are distinct from the underlying financial asset to be

[1] This is true of most, but not all derivatives, e.g., in some cross-currency interest rate swaps principal is exchanged on inception (and re-exchanged on maturity).

exchanged upon exercise of the option. The nature of the holder's right and of the writer's obligation are not affected by the likelihood that the option will be exercised.

AG43. Another example of a derivative financial instrument is a forward contract to be settled in six months' time in which one party (the purchaser) promises to deliver CU1,000,000 cash in exchange for CU1,000,000 face amount of fixed rate government bonds, and the other party (the seller) promises to deliver CU1,000,000 face amount of fixed rate government bonds in exchange for CU1,000,000 cash. During the six months, both parties have a contractual right and a contractual obligation to exchange financial instruments. If the market price of the government bonds rises above CU1,000,000, the conditions will be favorable to the purchaser and unfavorable to the seller; if the market price falls below CU1,000,000, the effect will be the opposite. The purchaser has a contractual right (a financial asset) similar to the right under a call option held and a contractual obligation (a financial liability) similar to the obligation under a put option written; the seller has a contractual right (a financial asset) similar to the right under a put option held and a contractual obligation (a financial liability) similar to the obligation under a call option written. As with options, these contractual rights and obligations constitute financial assets and financial liabilities separate and distinct from the underlying financial instruments (the bonds and cash to be exchanged). Both parties to a forward contract have an obligation to perform at the agreed time, whereas performance under an option contract occurs only if and when the holder of the option chooses to exercise it.

AG44. Many other types of derivative instruments embody a right or obligation to make a future exchange, including interest rate and currency swaps, interest rate caps, collars and floors, loan commitments, note issuance facilities, and letters of credit. An interest rate swap contract may be viewed as a variation of a forward contract in which the parties agree to make a series of future exchanges of cash amounts, one amount calculated with reference to a floating interest rate and the other with reference to a fixed interest rate. Futures contracts are another variation of forward contracts, differing primarily in that the contracts are standardized and traded on an exchange.

Contracts to Buy or Sell Non-Financial Items (paragraphs 4–6)

AG45. Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (e.g., an option, futures or forward contract on oil) are not financial instruments. Many commodity contracts are of this type. Some are standardized in form and traded on organized markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of the Standard as if they were financial instruments (see paragraph 4).

AG46. Except as required by IPSAS 47, a contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on credit.

AG47. Some contracts are commodity-linked, but do not involve settlement through the physical receipt or delivery of a commodity. They specify settlement through cash payments that are determined according to a formula in the contract, rather than through payment of fixed amounts. For example, the principal amount of a bond may be calculated by applying the market price of oil prevailing at the maturity of the bond to a fixed quantity of oil. The principal is indexed by reference to a commodity price, but is settled only in cash. Such a contract constitutes a financial instrument.

AG48. The definition of a financial instrument also encompasses a contract that gives rise to a non-financial asset or non-financial liability in addition to a financial asset or financial liability. Such financial instruments often give one party an option to exchange a financial asset for a non-financial asset. For example, an oil-linked bond may give the holder the right to receive a stream of fixed periodic interest payments and a fixed amount of cash on maturity, with the option to exchange the principal amount for a fixed quantity of oil. The desirability of exercising this option will vary from time to time depending on the fair value of oil relative to the exchange ratio of cash for oil (the exchange price) inherent in the bond. The intentions of the bondholder concerning the exercise of the option do not affect the substance of the component assets. The financial asset of the holder and the financial liability of the issuer make the bond a financial instrument, regardless of the other types of assets and liabilities also created.

Presentation

Liabilities and Net Assets/Equity (paragraphs 13–32)

No Contractual Obligation to Deliver Cash or another Financial Asset (paragraphs 21–24)

AG49. Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction, or insufficient surpluses or reserves, does not negate the obligation. An option of the issuer to redeem the shares for cash does not satisfy the definition of a financial liability because the issuer does not have a present obligation to transfer financial assets to the shareholders. In this case, redemption of the shares is solely at the discretion of the issuer. An obligation may arise, however, when the issuer of the shares exercises its option, usually by formally notifying the shareholders of an intention to redeem the shares.

AG50. When preference share s are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:

(a) A history of making distributions;

(b) An intention to make distributions in the future;

(c) A possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);

(d) The amount of the issuer's reserves;

(e) An issuer's expectation of a surplus or deficit for a period; or

(f) An ability or inability of the issuer to influence the amount of its surplus or deficit for the period.

Settlement in the Entity's Own Equity Instruments (paragraphs 25–29)

AG51. As noted in paragraph AG25, it is not common for entities in the public sector to issue equity instruments comprising shares or other forms of unitized capital; and where such instruments do exist, their use and ownership is usually restricted in legislation. As a result of the capital structure of public sector entities generally being different from private sector entities, and the legislative environment in which public sector entities operate, transactions that are settled in an entity's own equity instruments are not likely to occur as frequently in the public sector as in the private sector. However, where such transactions do occur, the following examples may assist in illustrating how to classify different types of contracts on an entity's own equity instruments:

(a) A contract that will be settled by the entity receiving or delivering a fixed number of its own shares for no future consideration, or exchanging a fixed number of its own shares for a fixed amount of cash or another financial asset, is an equity instrument (except as stated in paragraph 27). Accordingly, any consideration received or paid for such a contract is added directly to or deducted directly from net assets/equity. One example is an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed amount of cash. However, if the contract requires the entity to purchase (redeem) its own shares for cash or another financial asset at a fixed or determinable date or on demand, the entity also recognizes a financial liability for the present value of the redemption amount (with the exception of instruments that have all the features and meet the conditions in paragraph 15 and 16 or paragraphs 17 and 18). One example is an entity's obligation under a forward contract to repurchase a fixed number of its own shares for a fixed amount of cash.

(b) An entity's obligation to purchase its own shares for cash gives rise to a financial liability for the present value of the redemption amount even if the number of shares that the entity is obliged to repurchase is not fixed or if the obligation is conditional on the counterparty exercising a right to redeem (except as stated in paragraphs 15 and 16 or paragraphs 17 and 18). One example of a conditional obligation is an issued option that requires the entity to repurchase its own shares for cash if the counterparty exercises the option.

(c) A contract that will be settled in cash or another financial asset is a financial asset or financial liability even if the amount of cash or another financial asset that will be received or delivered is based on changes in the market price of the entity's own equity instruments (except as stated in paragraphs 15 and 16 or paragraphs 17 and 18). One example is a net cash-settled share option.

A contract that will be settled in a variable number of the entity's own shares whose value equals a fixed amount or an amount based on changes in an underlying variable (e.g., a commodity price) is a financial asset or a financial liability. An example is a written option to buy oil that, if exercised, is settled net in the entity's own instruments by the entity delivering as many of those instruments as are equal to the value of the option contract. Such a contract is a financial asset or financial liability even if the underlying variable is the entity's own share price rather than oil. Similarly, a contract that will be settled in a fixed number of the entity's own shares, but the rights attaching to those shares will be varied so that the settlement value equals a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability.

Contingent Settlement Provisions (paragraph 30)

AG52. Paragraph 30 requires that if a part of a contingent settlement provision that could require settlement in cash or another financial asset (or in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument. Thus, a contract that requires settlement in cash or a variable number of the entity's own shares only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur is an equity instrument. Similarly, settlement in a fixed number of an entity's own shares may be contractually precluded in circumstances that are outside the control of the entity, but if these circumstances have no genuine possibility of occurring, classification as an equity instrument is appropriate.

Treatment in Consolidated Financial Statements

AG53. In consolidated financial statements, an entity presents non-controlling interests i.e., the interests of other parties in the net assets/equity and revenue of its controlled entities in accordance with IPSAS 1 and IPSAS 35. When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers all terms and conditions agreed between members of the economic entity and the holders of the instrument in determining whether the economic entity as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification. When a controlled entity issues a financial instrument and a controlling entity or other entity within the economic entity agrees additional terms directly with the holders of the instrument (e.g., a guarantee), the economic entity may not have discretion over distributions or redemption. Although the controlled entity may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the economic entity and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the economic entity as a whole. To the extent that there is such an obligation or settlement provision, the instrument (or the component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.

AG54. Some types of instruments that impose a contractual obligation on the entity are classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. Classification in accordance with those paragraphs is an exception to the principles otherwise applied in this Standard to the classification of an instrument and cannot be applied by analogy to other instruments. This exception is not extended to the classification of non-controlling interests in the consolidated financial statements. Therefore, instruments classified as equity instruments in accordance with either paragraphs 15 and 16 or paragraphs 17 and 18 in the separate or individual financial statements that are non-controlling interests are classified as liabilities in the consolidated financial statements of the economic entity.

Compound Financial Instruments (paragraphs 33–37)

AG55. Paragraph 33 applies only to issuers of non-derivative compound financial instruments. Paragraph 33 does not deal with compound financial instruments from the perspective of holders. IPSAS 41 deals with the classification and measurement of financial assets that are compound financial instruments from the holder's perspective.

AG56. Compound financial instruments are not common in the public sector because of the capital structure of public sector entities. The following discussion does, however, illustrate how a compound financial instrument would be analyzed into its component parts. A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 33 requires the issuer of such a financial instrument to present the liability component and net assets/equity component separately in the statement of financial position, as follows:

(a) The issuer's obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

(b) The equity instrument is an embedded option to convert the liability into net assets/equity of the issuer. This option has value on initial recognition even when it is out of the money.

AG57. On conversion of a convertible instrument at maturity, the entity derecognizes the liability component and recognizes it as net assets/equity. The original net assets/equity component remains as net assets/equity (although it may be transferred from one line item within net assets/equity to another.) There is no gain or loss on conversion at maturity.

AG58. When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued, in accordance with paragraphs 33–37.

AG59. Once the allocation of the consideration is made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:

(a) The amount of gain or loss relating to the liability component is recognized in surplus or deficit; and

(b) The amount of consideration relating to the net assets/equity component is recognized in net assets/equity.

AG60. An entity may amend the terms of a convertible instrument to induce early conversion, for example by offering a more favorable conversion ratio or paying other additional consideration in the event of conversion before a specified date. The difference, at the date the terms are amended, between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms is recognized as a loss in surplus or deficit.

Treasury Shares (paragraphs 38 and 39)

AG61. An entity's own equity instruments are not recognized as a financial asset regardless of the reason for which they are reacquired. Paragraph 38 requires an entity that reacquires its own equity instruments to deduct those equity instruments from net assets/equity. However, when an entity holds its own equity instruments on behalf of others, for example, a financial institution holding its own equity instruments on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity's statement of financial position.

Interest, Dividends or Similar Distributions, Losses, and Gains (paragraphs 40–46)

AG62. The following example illustrates the application of paragraph 40 to a compound financial instrument. Assume that a non-cumulative preference share is mandatorily redeemable for cash in five years, but that dividends are payable at the discretion of the entity before the redemption date. Such an instrument is a compound financial instrument, with the liability component being the present value of the redemption amount. The unwinding of the discount on this component is recognized in surplus or deficit and classified as interest expense. Any dividends paid relate to the net assets/equity component and, accordingly, are recognized as a distribution of surplus or deficit. A similar treatment would apply if the redemption was not mandatory but at the option of the holder, or if the share was mandatorily convertible into a variable number of ordinary shares calculated to equal a fixed amount or an amount based on changes in an underlying variable (for example, a commodity). However, if any unpaid dividends or similar distributions are added to the redemption amount, the entire instrument is a liability. In such a case, any dividends or similar distributions are classified as interest expense.

Offsetting a Financial Asset and a Financial Liability (paragraphs 47–55)

AG63. [Deleted]

Criterion that an Entity 'Currently has a Legally Enforceable Right to Set Off the Recognized Amounts' (paragraph 47(a))

AG63A. A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of operations, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

AG63B. To meet the criterion in paragraph 47(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

(a) Must not be contingent on a future event; and

(b) Must be legally enforceable in all of the following circumstances:

(i) The normal course of operations;

(ii) The event of default; and

(iii) The event of insolvency or bankruptcy of the entity and all of the counterparties.

AG63C. The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of operations. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG63D. The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of operations, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG63B(b)).

Criterion that an Entity 'Intends Either to Settle on a Net Basis, or to Realize the Asset and Settle the Liability Simultaneously' (paragraph 47(b))

AG63E. To meet the criterion in paragraph 47(b) an entity must intend either to settle on a net basis or to realize the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realize the asset and settle the liability separately.

AG63F. If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 47(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 47(b):

(a) Financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;

(b) Once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;

(c) There is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);

(d) Assets and liabilities that are collateralized with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);

(e) Any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;

(f) Settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and

(g) An intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honored if called upon.

AG64. The Standard does not provide special treatment for so-called “synthetic instruments,” which are groups of separate financial instruments acquired and held to emulate the characteristics of another instrument. For example, a floating rate long-term debt combined with an interest rate swap that involves receiving floating payments and making fixed payments synthesizes a fixed rate long-term debt. Each of the individual financial instruments that together constitute a “synthetic instrument” represents a contractual right or obligation with its own terms and conditions and each may be transferred or settled separately. Each financial instrument is exposed to risks that may differ from the risks to which other financial instruments are exposed. Accordingly, when one financial instrument in a “synthetic instrument” is an asset and another is a liability, they are not offset and presented in an entity’s statement of financial position on a net basis unless they meet the criteria for offsetting in paragraph 47.

Appendix B

Members' Shares in Co-operative Entities and Similar Instruments

This Appendix is an integral part of IPSAS 28.

Introduction

B1. Co-operatives and other similar entities are formed by groups of persons to meet common economic or social needs. National laws typically define a co-operative as a society endeavoring to promote its members' economic advancement by way of a joint business operation (the principle of self-help). Members' interests in a co-operative are often characterised as members' shares, units or the like, and are referred to below as "members' shares." This Appendix applies to financial instruments issued to members of co-operative entities that evidence the members' ownership interest in the entity and does not apply to financial instruments that will or may be settled in the entity's own equity instruments.

B2. IPSAS 28 establishes principles for the classification of financial instruments as financial liabilities or net assets/equity. In particular, those principles apply to the classification of puttable instruments that allow the holder to put those instruments to the issuer for cash or another financial instrument. The application of those principles to members' shares in co-operative entities and similar instruments is difficult. This guidance is provided to illustrate the application of the principles in IPSAS 28 to members' shares and similar instruments that have certain features, and the circumstances in which those features affect the classification as liabilities or net assets/equity.

B3. Many financial instruments, including members' shares, have characteristics of equity instruments, including voting rights and rights to participate in dividend or similar distributions. Some financial instruments give the holder the right to request redemption for cash or another financial asset, but may include or be subject to limits on whether the financial instruments will be redeemed. The following paragraphs outline how those redemption terms should be evaluated in determining whether the financial instruments should be classified as liabilities or net assets/equity.

Application of IPSAS to Members' Shares in Co-operative Entities and Similar Instruments

B4. The contractual right of the holder of a financial instrument (including members' shares in co-operative entities) to request redemption does not, in itself, require that financial instrument to be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or an equity instrument. Those terms and conditions include relevant local laws, regulations and the entity's governing charter in effect at the date of classification, but not expected future amendments to those laws, regulations or charter.

B5. Members' shares that would be classified as equity instruments if the members did not have a right to request redemption are equity instruments if either of the conditions described in paragraphs B6 and B7 is present or the members' shares have all the features and meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28. Demand deposits, including current accounts, deposit accounts and similar contracts that arise when members act as customers are financial liabilities of the entity.

B6. Members' shares are equity instruments if the entity has an unconditional right to refuse redemption of the members' shares.

B7. Local law, regulation or the entity's governing charter can impose various types of prohibitions on the redemption of members' shares, e.g., unconditional prohibitions or prohibitions based on liquidity criteria. If redemption is unconditionally prohibited by local law, regulation or the entity's governing charter, members' shares are equity instruments. However, provisions in local law, regulation or the entity's governing charter that prohibit redemption only if conditions—such as liquidity constraints—are met (or are not met) do not result in members' shares being equity instruments.

B8. An unconditional prohibition may be absolute, in that all redemptions are prohibited. An unconditional prohibition may be partial, in that it prohibits redemption of members' shares if redemption would cause the number of members' shares or amount of paid-in capital from members' shares to fall below a specified level. Members' shares in excess of the prohibition against redemption are liabilities, unless the entity has the unconditional right to refuse redemption as described in paragraph B6 or the members' shares have all the features and meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28. In some cases, the number of shares or the amount of paid-in capital subject to a redemption prohibition may change from time to time. Such a change in the redemption prohibition leads to a transfer between financial liabilities and net assets/equity.

B9. At initial recognition, the entity shall measure its financial liability for redemption at fair value. In the case of members' shares with a redemption feature, the entity measures the fair value of the financial liability for redemption at no less than the maximum amount payable under the redemption provisions of its governing charter or applicable law discounted from the first date that the amount could be required to be paid (see example 3).

B10. As required by paragraph 40 of IPSAS 28, distributions to holders of equity instruments are recognized directly in net assets/equity, net of any income tax benefits. Interest, dividends or similar distributions and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends or similar distributions, interest or otherwise.

B11. When a change in the redemption prohibition leads to a transfer between financial liabilities and net assets/equity, the entity shall disclose separately the amount, timing and reason for the transfer.

B12. The following examples illustrate the application of the preceding paragraphs.

Illustrative Examples

The examples do not constitute an exhaustive list; other fact patterns are possible. Each example assumes that there are no conditions other than those set out in the facts of the example that would require the financial instrument to be classified as a financial liability and that the financial instrument does not have all the features or does not meet the conditions in paragraph 15 and 16 or paragraphs 17 and 18 of IPSAS 28.

Unconditional Right to Refuse Redemption (paragraph B6)

Example 1

Facts

B13. The entity's charter states that redemptions are made at the sole discretion of the entity. The charter does not provide further elaboration or limitation on that discretion. In its history, the entity has never refused to redeem members' shares, although the governing board has the right to do so.

Classification

B14. The entity has the unconditional right to refuse redemption and the members' shares are equity instruments. IPSAS 28 establishes principles for classification that are based on the terms of the financial instrument and notes that a history of, or intention to make, discretionary payments does not trigger liability classification. Paragraph AG50 of IPSAS 28 states:

> When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the

issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:

(a) A history of making distributions;

(b) An intention to make distributions in the future;

(c) A possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);

(d) The amount of the issuer's reserves;

(e) An issuer's expectation of a surplus or deficit for a period; or

(f) An ability or inability of the issuer to influence the amount of its surplus or deficit for the period.

Example 2

Facts

B15. The entity's charter states that redemptions are made at the sole discretion of the entity. However, the charter further states that approval of a redemption request is automatic unless the entity is unable to make payments without violating local regulations regarding liquidity or reserves.

Classification

B16. The entity does not have the unconditional right to refuse redemption and the members' shares are classified as a financial liability. The restrictions described above are based on the entity's ability to settle its liability. They restrict redemptions only if the liquidity or reserve requirements are not met and then only until such time as they are met. Hence, they do not, under the principles established in IPSAS 28, result in the classification of the financial instrument as equity instruments. Paragraph AG49 of IPSAS 28 states:

> Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. *The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient surpluses or reserves, does not negate the obligation.* [Emphasis added]

Prohibitions against Redemption (paragraphs B7 and B8)

Example 3

Facts

B17. A co-operative entity has issued shares to its members at different dates and for different amounts in the past as follows:

(a) January 1, 20X1 100,000 shares at CU10 each (CU1,000,000);

(b) January 1, 20X2 100,000 shares at CU20 each (a further CU2,000,000, so that the total for shares issued is CU3,000,000).

Shares are redeemable on demand at the amount for which they were issued.

B18. The entity's charter states that cumulative redemptions cannot exceed 20 percent of the highest number of its members' shares ever outstanding. At December 31, 20X2 the entity has 200,000 of outstanding shares, which is the highest number of members' shares ever outstanding and no shares have been redeemed in the past. On January 1, 20X3 the entity amends its governing charter and increases the permitted level of cumulative redemptions to 25 percent of the highest number of its members' shares ever outstanding.

Classification

Before the Governing Charter is Amended

B19. Members' shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity measures the fair value of such financial liabilities in accordance with paragraph 68 of IPSAS 41, which states: "The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand …" Accordingly, the co-operative entity classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.

B20. On January 1, 20X1 the maximum amount payable under the redemption provisions is 20,000 shares at CU10 each and accordingly the entity classifies CU200,000 as financial liability and CU800,000 as equity instruments. However, on January 1, 20X2 because of the new issue of shares at CU20, the maximum amount payable under the redemption provisions increases to 40,000 shares at CU20 each. The issue of additional shares at CU20 creates a new liability that is measured on initial recognition at fair value. The liability after these shares have been issued is 20 percent of the total shares in issue (200,000), measured at CU20, or CU800,000. This requires recognition of an additional liability of CU600,000. In this example no gain or loss is recognized. Accordingly the entity now classifies CU800,000 as financial liabilities and CU2,200,000 as equity instruments. This example assumes these amounts are not changed between January 1, 20X1 and December 31, 20X2.

After the Governing Charter is Amended

B21. Following the change in its governing charter the co-operative entity can now be required to redeem a maximum of 25 percent of its outstanding shares or a maximum of 50,000 shares at CU20 each. Accordingly, on January 1, 20X3 the co-operative entity classifies as financial liabilities an amount of CU1,000,000 being the maximum amount payable on demand under the redemption provisions, as determined in accordance with paragraph 68 of IPSAS 41. It therefore transfers on January 1, 20X3 from net assets/equity to financial liabilities an amount of CU200,000, leaving CU2,000,000 classified as equity instruments. In this example the entity does not recognize a gain or loss on the transfer.

Example 4

Facts

B22. Local law governing the operations of co-operatives, or the terms of the entity's governing charter, prohibit an entity from redeeming members' shares if, by redeeming them, it would reduce paid-in capital from members' shares below 75 percent of the highest amount of paid-in capital from members' shares. The highest amount for a particular co-operative is CU1,000,000. At the end of the reporting period the balance of paid-in capital is CU900,000.

Classification

B23. In this case, CU750,000 would be classified as equity instruments and CU150,000 would be classified as financial liabilities. In addition to the paragraphs already cited, paragraph 22(b) of IPSAS 28 states in part:

> … a financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18.

B24. The redemption prohibition described in this example is different from the restrictions described in paragraphs 23 and AG49 of IPSAS 28. Those restrictions are limitations on the ability of the entity to pay the amount due on a financial liability, i.e., they prevent payment of the liability only if specified conditions are met. In contrast, this example describes an unconditional prohibition on redemptions beyond a specified amount, regardless of the entity's ability to redeem members' shares (e.g., given its cash resources, surpluses or distributable reserves). In effect, the prohibition against redemption prevents the entity from incurring any financial liability to redeem more than a specified amount of paid-in capital. Therefore, the portion of shares subject to the redemption prohibition is not a financial liability. While each member's shares may be redeemable individually, a portion of the total shares outstanding is not redeemable in any circumstances other than liquidation of the entity.

Example 5

Facts

B25. The facts of this example are as stated in example 4. In addition, at the end of the reporting period, liquidity requirements imposed in the local jurisdiction prevent the entity from redeeming any members' shares unless its holdings of cash and short-term investments are greater than a specified amount. The effect of these liquidity requirements at the end of the reporting period is that the entity cannot pay more than CU50,000 to redeem the members' shares.

Classification

B26. As in example 4, the entity classifies CU750,000 as equity instruments and CU150,000 as a financial liability. This is because the amount classified as a liability is based on the entity's unconditional right to refuse redemption and not on conditional restrictions that prevent redemption only if liquidity or other conditions are not met and then only until such time as they are met. The provisions of paragraphs 23 and AG49 of IPSAS 28 apply in this case.

Example 6

Facts

B27. The entity's governing charter prohibits it from redeeming members' shares, except to the extent of proceeds received from the issue of additional members' shares to new or existing members during the preceding three years. Proceeds from issuing members' shares must be applied to redeem shares for which members have requested redemption. During the three preceding years, the proceeds from issuing members' shares have been CU12,000 and no member's shares have been redeemed.

Classification

B28. The entity classifies CU12,000 of the members' shares as financial liabilities. Consistently with the conclusions described in example 4, members' shares subject to an unconditional prohibition against redemption are not financial liabilities. Such an unconditional prohibition applies to an amount equal to the proceeds of shares issued before the preceding three years, and accordingly, this amount is classified as equity instruments. However, an amount equal to the proceeds from any shares issued in the preceding three years is not subject to an unconditional prohibition on redemption. Accordingly, proceeds from the issue of members' shares in the preceding three years give rise to financial liabilities until they are no longer available for redemption of members' shares. As a result the entity has a financial liability equal to the proceeds of shares issued during the three preceding years, net of any redemptions during that period.

Example 7

Facts

B29. The entity is a co-operative bank. Local law governing the operations of co-operative banks state that at least 50 percent of the entity's total "outstanding liabilities" (a term defined in the regulations to include members' share accounts) has to be in the form of members' paid-in capital. The effect of the regulation is that if all of a co-operative's outstanding liabilities are in the form of members' shares, it is able to redeem them all. On December 31, 20X1 the entity has total outstanding liabilities of CU200,000, of which CU125,000 represent members' share accounts. The terms of the members' share accounts permit the holder to redeem them on demand and there are no limitations on redemption in the entity's charter.

Classification

B30. In this example members' shares are classified as financial liabilities. The redemption prohibition is similar to the restrictions described in paragraphs 23 and AG49 of IPSAS 28. The restriction is a conditional limitation on the ability of the entity to pay the amount due on a financial liability, i.e., they prevent payment of the liability only if specified conditions are met. More specifically, the entity could be required to redeem the entire amount of members' shares (CU125,000) if it repaid all of its other liabilities (CU75,000). Consequently, the prohibition against redemption does not prevent the entity from incurring a financial liability to redeem more than a specified number of members' shares or amount of paid-in capital. It allows the entity only to defer redemption until a condition is met, i.e., the repayment of other liabilities. Members' shares in this example are not subject to an unconditional prohibition against redemption and are therefore classified as financial liabilities.

Appendix C

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 28.

Introduction

BC1. This Basis for Conclusions summarizes the International Public Sector Accounting Standards Board's (IPSASB) considerations in reaching the conclusions in IPSAS 28, *Financial Instruments: Presentation*. As this Standard is primarily drawn from IAS 32, *Financial Instruments: Presentation* issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where the IPSAS 28 departs from the main requirements of IAS 32.

BC2. This project on financial instruments is a key part of the IPSASB's convergence program, which aims to converge IPSAS with International Financial Reporting Standards (IFRS). The IPSASB acknowledges that there are other aspects of financial instruments, in so far as they relate to the public sector, which are not addressed in IAS 32. These may be addressed by future projects of the IPSASB. In particular, the IPSASB acknowledges that future projects may be required to address:

- Certain transactions undertaken by central banks; and
- Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

BC3. In developing this Standard, the IPSASB agreed to retain the existing text of IAS 32, making changes to ensure consistency with the terminology and presentational requirements of other IPSAS, and deal with any public sector specific issues through additional Application Guidance.

BC4. In September 2007, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* which introduced "comprehensive income" into the presentation of financial statements. As the IPSASB has not yet considered comprehensive income, along with some of the other amendments to IAS 1, those amendments have not been included in IPSAS 28.

Scope

Insurance and Financial Guarantee Contracts

BC5. IAS 32 excludes all insurance contracts from the scope of IAS 32, except for financial guarantee contracts where the issuer applies IFRS 9, *Financial Instruments* in recognizing and measuring such contracts. The scope of IPSAS 28 also excludes all insurance contracts, except that:

- Financial guarantee contracts are to be treated as financial instruments unless an entity elects to treat such contracts as insurance contracts in accordance with the relevant international or national accounting standard dealing with insurance contracts; and
- Contracts that are insurance contracts but involve the transfer of financial risk may be treated as financial instruments in accordance with IPSAS 28, IPSAS 30 and IPSAS 41.

Treating Financial Guarantees as Financial Instruments

BC6. Under IAS 32, financial guarantee contracts should be treated as financial instruments, unless an issuer elects to apply IFRS 4 to those contracts. Unlike in the private sector, many financial guarantee contracts are issued in the public sector by way of a non-exchange transaction, i.e., at no or nominal consideration. So as to enhance the comparability of financial statements and, given the significance of financial guarantee contracts issued by way of non-exchange transactions in the public sector, the IPSASB had proposed that such guarantees should be treated as financial instruments and entities should not be permitted to treat them as insurance contracts.

BC7. In response to this proposal, some respondents agreed that the treatment of financial guarantee contracts issued through non-exchange transactions as financial instruments, rather than as insurance contracts, is appropriate because the business models for exchange and non-exchange insurance contracts are different. Others argued that entities should be allowed to treat such guarantees as insurance contracts or financial instruments using an election similar to that in IFRS 4.

BC8. The IPSASB concluded that the same approach should be applied to financial guarantee contracts, regardless of whether they are issued through exchange or non-exchange transactions, because the underlying liability that should be recognized in an entity's financial statements does not differ. The IPSASB agreed that entities should be permitted a choice of treating financial guarantee contracts, either as insurance contracts or financial instruments, subject to certain conditions.

BC9. In evaluating the circumstances under which an entity may elect to treat financial guarantee contracts as insurance contracts, the IPSASB considered the requirements of IFRS 4. The election to treat financial guarantee contracts as financial instruments or insurance contracts under IFRS 4 is available only to those entities that previously explicitly asserted that they deem such contracts to be insurance contracts. The IPSASB, however, recognized that not all entities that have adopted accrual accounting apply IFRS 4. It acknowledged that it should also consider scenarios where, for example, entities applied accrual accounting but did not recognize assets and liabilities relating to insurance contracts, as well as entities that previously did not apply accrual accounting. Consequently, the IPSASB agreed that the existing requirements in IFRS 4 were too onerous and would need to be modified in the context of this Standard.

BC10. The IPSASB therefore agreed that entities that previously:

(a) Applied insurance accounting and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, could continue to treat those guarantees as insurance contracts or as financial instruments; and

(b) Did not apply insurance accounting would be allowed a choice of treating financial guarantee contracts either as insurance contracts or financial instruments when they adopt this Standard.

In both instances, the election is irrevocable.

BC11. The IPSASB considered whether entities should be allowed to elect to treat financial guarantees as insurance contracts on a contract-by-contract basis or, whether entities should be required to make a general accounting policy choice. It was agreed that the choice should be made on an individual contract basis to allow entities within an economic entity to treat financial guarantees as insurance contracts or financial instruments, based on the nature of their businesses.

BC12. The IPSASB agreed, as a precondition for allowing entities to treat financial guarantees as insurance contracts, that the accounting practices applied by entities for insurance contracts should meet certain requirements. The IPSASB agreed that if entities elected to treat financial guarantee contracts as insurance contracts, that they must apply either IFRS 4 or a national accounting standard that requires insurance liabilities to be measured at a minimum value. That minimum value is determined as if the insurance liabilities were within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* using the current estimates of cash flows arising from an entity's insurance contracts and of any related cash flows.

Option to Treat Insurance Contracts that Transfer Financial Risk as Financial Instruments

BC13. IPSAS 15 allowed entities to account for contracts that are insurance contracts that result in the transfer of financial risk, as financial instruments. In the absence of an IPSAS on insurance contracts, the IPSASB concluded that it should allow, but not require, entities to apply IPSAS 28 to such contracts.

Identifying Contractual Financial Guarantees

BC14. Financial instruments in IPSAS 28 are defined as: "…any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity." As arrangements in the public sector may arise through statutory powers, the IPSASB developed additional application guidance to identify when financial guarantees are contractual. The IPSASB concluded that, to be within the scope of IPSAS 28, financial guarantees should have the key features of a contractual arrangement. The IPSASB also concluded that an entity should distinguish the right to issue guarantees, which is often conferred on an entity through statutory or similar means, and the actual issuing of the guarantee in favour of a third party, irrespective of whether that party is explicitly or implicitly identified. A statutory right to issue guarantees, of itself, is not within the scope of this Standard.

Definitions

Contractual Arrangements

BC15. The IPSASB noted that, in certain jurisdictions, public sector entities are precluded from entering into formal contracts, but do enter into arrangements that have the substance of contracts. These arrangements may be known by another term, e.g., a "government order." To assist entities in identifying contracts, which either have the substance or legal form of a contract, the IPSASB considered it appropriate to issue additional Application Guidance explaining the factors an entity should consider in assessing whether an arrangement is contractual or non-contractual.

BC16. Consideration was given as to whether the term "binding arrangement" should be used to describe the arrangements highlighted in paragraph BC15. The term "binding arrangement" has not been defined, but has been used in IPSAS to describe arrangements that are binding on the parties, but do not take the form of a documented contract, such as an arrangement between two government departments that do not have the power to contract. The IPSASB concluded that the term "binding arrangements," as used in IPSAS, embraces a wider set of arrangements than those identified in paragraph BC15 and therefore concluded that it should not be used in this IPSAS.

Contractual Non-Exchange Revenue Transactions

BC17. When this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising out of non-exchange revenue transactions. The IPSASB considered the interaction between this Standard and IPSAS 23.

BC18. In considering whether assets and liabilities that arise from non-exchange revenue transactions were financial assets and financial liabilities, the IPSASB identified that the following basic requirements should be fulfilled:

- The arrangement is contractual in nature; and
- The arrangement gives rise to a contractual right or obligation to receive or deliver cash or another financial asset, or exchange financial assets under favorable or unfavorable conditions.

BC19. The IPSASB concluded that assets arising from non-exchange revenue transactions could meet these requirements. In particular, it noted that the nature of arrangements with donors may be contractual in nature, and may be settled by transferring cash or another financial asset from the donor to the recipient. In these instances, assets arising from non-exchange revenue transactions were financial assets.

BC20. Therefore, when this Standard was developed, the IPSASB agreed that, for financial assets arising from non-exchange transactions, an entity should apply the requirements of IPSAS 23 in conjunction with IPSAS 28. In particular, an entity should consider the principles in IPSAS 28 in considering whether an inflow of resources from a non-exchange revenue transaction resulted in a liability or a transaction that evidences a residual interest in the net assets of the entity, i.e., an equity instrument.

BC21. The IPSASB considered whether liabilities arising from non-exchange revenue transactions were financial liabilities. Liabilities were recognized in IPSAS 23 when an entity received an inflow of resources that was subject to specific conditions. Conditions on a transfer of resources imposed on an entity by a transferor required that the resources were used in a certain way, often to provide goods or services to third parties, or were returned to the transferor. This gave rise to an obligation to perform in terms of the agreement. At initial recognition, an entity recognized the resources as an asset and, where they are subject to conditions, recognized a corresponding liability.

BC22. While developing this Standard, the IPSASB considered whether the liability initially recognized is in the nature of a financial liability or another liability, e.g., a provision. The IPSASB agreed that, at the time the asset is recognized, the liability is not usually a financial liability as the entity's obligation is to fulfil the terms and conditions of the arrangement by utilizing the resources as intended, usually by providing goods or services to third parties over a period of time. If after initial recognition, the entity cannot the fulfil the terms of the arrangement and is required to return the resources to the transferor, an entity would assess at this stage whether the liability is a financial liability considering the requirements set out in paragraph BC18 and the definitions of a financial instrument and a financial liability. In rare circumstances, a financial liability may arise from conditions imposed on a transfer of resources as part of a non-exchange revenue transaction. The IPSASB may consider such a scenario as part of a future project.

BC23. While developing this Standard, the IPSASB also noted that other liabilities may arise from non-exchange revenue transactions after initial recognition. For example, an entity may receive resources under an arrangement that required the resources to be returned only after the occurrence or non-occurrence of a future event. An entity assesses whether other liabilities arising from non-exchange revenue transactions are financial liabilities by considering whether the requirements in paragraph BC18 have been fulfilled and the definitions of a financial instrument and a financial liability have been met.

Other

Interpretations Developed by the International Financial Reporting Interpretations Committee

BC24. The IPSASB considered whether International Financial Reporting Interpretations Committee Interpretation (IFRIC) 2, *Members' Shares in Co-operative Entities and Similar Instruments* and International Financial Reporting Interpretations Committee Interpretation (IFRIC) 11, *IFRS 2—Group and Treasury Share Transactions* were relevant for the types of instruments entered into by governments and entities in the public sector.

BC25. When this Standard was issued, the IPSASB considered that IFRIC 11 is not relevant for the types of instruments entered into in the public sector as it deals with share-based payment transactions. While share-based payments may be common in [Government Business Enterprises (GBE's)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016), they do not occur frequently in entities that are not GBE's. As a result, the IPSASB has not included any principles from IFRIC 11 in IPSAS 28.

BC26. IFRIC 2 provides guidance on the application of IAS 32 to members' shares in co-operative entities and similar instruments. There is a strong link between IAS 32 and IFRIC 2 in relation to puttable financial instruments and obligations arising on liquidation. As the text of IAS 32 that deals with puttable financial instruments and obligations arising on liquidation has been retained in IPSAS 28, IFRIC 2 provides additional guidance to users of IPSAS 28 in applying those principles to members' interests in co-operative entities. Therefore, the principles and examples from IFRIC 2 have been included in IPSAS 28 as an authoritative appendix.

Revision of IPSAS 28 as a result of IASB's *Improvements to IFRS* issued in May 2012

BC27. The IPSASB reviewed the revisions to IAS 32 included in the *Improvements to IFRS* issued by the IASB in May 2012 and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 28 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC28. 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 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.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 28.

Accounting for Contracts on Equity Instruments of an Entity

IE1. The following examples illustrate the application of paragraphs 13–32 and IPSAS 41 to the accounting for contracts on an entity's own equity instruments. In these examples, monetary amounts are denominated in "currency units" (CU).

Example 1: Forward to Buy Shares

IE2. This example illustrates the journal entries for forward purchase contracts on an entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below). To simplify the illustration, it is assumed that no dividends are paid on the underlying shares (i.e., the "carry return" is zero) so that the present value of the forward price equals the spot price when the fair value of the forward contract is zero. The fair value of the forward has been computed as the difference between the market share price and the present value of the fixed forward price.

Assumptions:

Contract date	February 1, 20X2
Maturity date	January 31, 20X3
Market price per share on February, 1 20X2	CU100
Market price per share on December, 31 20X2	CU110
Market price per share on January, 31 20X3	CU106
Fixed forward price to be paid on January, 31 20X3	CU104
Present value of forward price on February, 1 20X2	CU100
Number of shares under forward contract	1,000
Fair value of forward on February, 1 20X2	CU0
Fair value of forward on December, 31 20X2	CU6,300
Fair value of forward on January, 31 20X3	CU2,000

(a) **Cash for Cash ("Net Cash Settlement")**

IE3. In this subsection, the forward purchase contract on the entity's own shares will be settled net in cash, i.e., there is no receipt or delivery of the entity's own shares upon settlement of the forward contract.

On February 1, 20X2, Entity A enters into a contract with Entity B to receive the fair value of 1,000 of Entity A's own outstanding ordinary shares as of January 31, 20X3 in exchange for a payment of CU104,000 in cash (i.e., CU104 per share) on January 31, 20X3. The contract will be settled net in cash. Entity A records the following journal entries.

February 1, 20X2

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the forward contract on February 1, 20X2 is zero.

No entry is required because the fair value of the derivative is zero and no cash is paid or received.

December 31, 20X2

On December 31, 20X2, the market price per share has increased to CU110 and, as a result, the fair value of the forward contract has increased to CU6,300.

Dr	Forward asset	CU6,300	
Cr	Gain		CU6,300

To record the increase in the fair value of the forward contract.

January 31, 20X3

On January 31, 20X3, the market price per share has decreased to CU106. The fair value of the forward contract is CU2,000 ([CU106 × 1,000] – CU104,000).

On the same day, the contract is settled net in cash. Entity A has an obligation to deliver CU104,000 to Entity B and Entity B has an obligation to deliver CU106,000 (CU106 × 1,000) to Entity A, so Entity B pays the net amount of CU2,000 to Entity A.

Dr	Loss	CU4,300	
Cr	Forward asset		CU4,300

To record the decrease in the fair value of the forward contract (i.e., CU4,300 = CU6,300 – CU2,000).

Dr	Cash	CU2,000	
Cr	Forward asset		CU2,000

To record the settlement of the forward contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE4. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those shown in (a) above, except for recording the settlement of the forward contract, as follows:

January 31, 20X3

The contract is settled net in shares. Entity A has an obligation to deliver CU104,000 (CU104 × 1,000) worth of its shares to Entity B and Entity B has an obligation to deliver CU106,000 (CU106 × 1,000) worth of shares to Entity A. Thus, Entity B delivers a net amount of CU2,000 (CU106,000 – CU104,000) worth of shares to Entity A, i.e., 18.9 shares (CU2,000/CU106).

Dr	Net assets/equity	CU2,000	

Cr	Forward asset		CU2,000

To record the settlement of the forward contract.

(c) **Cash for Shares ("Gross Physical Settlement")**

IE5. Assume the same facts as in (a) except that settlement will be made by delivering a fixed amount of cash and receiving a fixed number of Entity A's shares. Similarly to (a) and (b) above, the price per share that Entity A will pay in one year is fixed at CU104. Accordingly, Entity A has an obligation to pay CU104,000 in cash to Entity B (CU104 × 1,000) and Entity B has an obligation to deliver 1,000 of Entity A's outstanding shares to Entity A in one year. Entity A records the following journal entries.

February 1, 20X2

Dr	Net assets/equity	CU100,000	
Cr	Liability		CU100,000

To record the obligation to deliver CU104,000 in one year at its present value of CU100,000 discounted using an appropriate interest rate (see IPSAS 41, paragraph AG115).

December 31, 20X2

Dr	Interest expense	CU3,660	
Cr	Liability		CU3,660

To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.

January 31, 20X3

Dr	Interest expense	CU340	
Cr	Liability		CU340

To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.

Entity A delivers CU104,000 in cash to Entity B and Entity B delivers 1,000 of Entity A's shares to Entity A.

Dr	Liability	CU104,000	
Cr	Cash		CU104,000

To record the settlement of the obligation to redeem Entity A's own shares for cash.

(d) **Settlement Options**

IE6. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the forward repurchase contract is a financial asset or a financial liability. If one of the settlement alternatives is to exchange cash for shares ((c) above), Entity A recognizes a liability for the obligation to deliver cash, as illustrated in (c) above. Otherwise, Entity A accounts for the forward contract as a derivative.

Example 2: Forward to Sell Shares

IE7. This example illustrates the journal entries for forward sale contracts on an entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by receiving cash in exchange for shares. It also discusses the effect of settlement options (see (d) below). To simplify the illustration, it is assumed that no dividends are paid on the underlying shares (i.e., the "carry return" is zero) so that the present value of the forward price equals the spot price when the fair value of the forward contract is zero. The fair value of the forward has been computed as the difference between the market share price and the present value of the fixed forward price.

Assumptions:

Contract date	February 1, 20X2
Maturity date	January 31, 20X3
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU110
Market price per share on January 31, 20X3	CU106
Fixed forward price to be paid on January 31, 20X3	CU104
Present value of forward price on February 1, 20X2	CU100
Number of shares under forward contract	1,000
Fair value of forward on February 1, 20X2	CU0
Fair value of forward on December 31, 20X2	(CU6,300)
Fair value of forward on January 31, 20X3	(CU2,000)

(a) **Cash for Cash ("Net Cash Settlement")**

IE8. On February 1, 20X2, Entity A enters into a contract with Entity B to pay the fair value of 1,000 of Entity A's own outstanding ordinary shares as of January 31, 20X3 in exchange for CU104,000 in cash (i.e., CU104 per share) on January 31, 20X3. The contract will be settled net in cash. Entity A records the following journal entries.

February 1, 20X2

No entry is required because the fair value of the derivative is zero and no cash is paid or received.

December 31, 20X2

Dr		Loss	CU6,300	
	Cr	Forward liability		CU6,300

To record the decrease in the fair value of the forward contract.

January 31, 20X3

Dr	Forward liability	CU4,300	
Cr	Gain		CU4,300

To record the increase in the fair value of the forward contract (i.e., CU4,300 = CU6,300 – CU2,000).

The contract is settled net in cash. Entity B has an obligation to deliver CU104,000 to Entity A, and Entity A has an obligation to deliver CU106,000 (CU106 × 1,000) to Entity B. Thus, Entity A pays the net amount of CU2,000 to Entity B.

Dr	Forward liability	CU2,000	
Cr	Cash		CU2,000

To record the settlement of the forward contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE9. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those shown in (a), except:

January 31, 20X3

The contract is settled net in shares. Entity A has a right to receive CU104,000 (CU104 × 1,000) worth of its shares and an obligation to deliver CU106,000 (CU106 × 1,000) worth of its shares to Entity B. Thus, Entity A delivers a net amount of CU2,000 (CU106,000 – CU104,000) worth of its shares to Entity B, i.e., 18.9 shares (CU2,000/CU106).

Dr	Forward liability	CU2,000	
Cr	Net assets/equity		CU2,000

To record the settlement of the forward contract. The issue of the entity's own shares is treated as a transaction in net assets/equity.

(c) **Shares for Cash ("Gross Physical Settlement")**

IE10. Assume the same facts as in (a), except that settlement will be made by receiving a fixed amount of cash and delivering a fixed number of the entity's own shares. Similarly to (a) and (b) above, the price per share that Entity A will pay in one year is fixed at CU104. Accordingly, Entity A has a right to receive CU104,000 in cash (CU104 × 1,000) and an obligation to deliver 1,000 of its own shares in one year. Entity A records the following journal entries.

February 1, 20X2

No entry is made on February 1. No cash is paid or received because the forward has an initial fair value of zero. A forward contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash or another financial asset meets the definition of an equity instrument because it cannot be settled otherwise than through the delivery of shares in exchange for cash.

December 31, 20X2

No entry is made on December 31, because no cash is paid or received and a contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.

January 31, 20X3

On January 31, 20X3, Entity A receives CU104,000 in cash and delivers 1,000 shares.

Dr	Cash	CU104,000	
Cr	Net assets/equity		CU104,000

To record the settlement of the forward contract.

(d) **Settlement Options**

IE11. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the forward contract is a financial asset or a financial liability. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A repurchasing a fixed number of its own shares in exchange for paying a fixed amount of cash or another financial asset. Entity A recognizes a derivative asset or liability, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

Example 3: Purchased Call Option on Shares

IE12. This example illustrates the journal entries for a purchased call option right on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for the entity's own shares. It also discusses the effect of settlement options (see (d) below):

Assumptions:

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Reporting entity (Entity A)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU104
Market price per share on January 31, 20X3	CU104
Fixed exercise price to be paid on January 31, 20X3	CU102
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU3,000
Fair value of option on January 31, 20X3	CU2,000

(a) **Cash for Cash ("Net Cash Settlement")**

IE13. On February 1, 20X2, Entity A enters into a contract with Entity B that gives Entity B the obligation to deliver, and Entity A the right to receive the fair value of 1,000 of Entity A's own ordinary shares as of January 31, 20X3 in exchange for CU102,000 in cash (i.e., CU102 per share) on January 31, 20X3, if Entity A exercises that right. The contract will be settled net in cash. If Entity A does not exercise its right, no payment will be made. Entity A records the following journal entries.

February 1, 20X2

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the option contract on February 1, 20X2 is CU5,000, which Entity A pays to Entity B in cash on that date. On that date, the option has no intrinsic value, only time value, because the exercise price of CU102 exceeds the market price per share of CU100 and it would therefore not be economic for Entity A to exercise the option. In other words, the call option is out of the money.

Dr		Call option asset	CU5,000	
	Cr	Cash		CU5,000

To recognize the purchased call option.

December 31, 20X2

On December 31, 20X2, the market price per share has increased to CU104. The fair value of the call option has decreased to CU3,000, of which CU2,000 is intrinsic value ([CU104 – CU102] × 1,000), and CU1,000 is the remaining time value.

Dr		Loss	CU2,000	
	Cr	Call option asset		CU2,000

To record the decrease in the fair value of the call option.

January 31, 20X3

On January 31, 20X3, the market price per share is still CU104. The fair value of the call option has decreased to CU2,000, which is all intrinsic value ([CU104 – CU102] × 1,000) because no time value remains.

Dr		Loss	CU1,000	
	Cr	Call option asset		CU1,000

To record the decrease in the fair value of the call option.

On the same day, Entity A exercises the call option and the contract is settled net in cash. Entity B has an obligation to deliver CU104,000 (CU104 × 1,000) to Entity A in exchange for CU102,000 (CU102 × 1,000) from Entity A, so Entity A receives a net amount of CU2,000.

Dr		Cash	CU2,000	
	Cr	Call option asset		CU2,000

To record the settlement of the option contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE14. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those shown in (a) except for recording the settlement of the option contract as follows:

January 31, 20X3

Entity A exercises the call option and the contract is settled net in shares. Entity B has an obligation to deliver CU104,000 (CU104 × 1,000) worth of Entity A's shares to Entity A in exchange for CU102,000 (CU102 × 1,000) worth of Entity A's shares. Thus, Entity B delivers the net amount of CU2,000 worth of shares to Entity A, i.e., 19.2 shares (CU2,000/CU104).

Dr		Net assets/equity	CU2,000	
	Cr	Call option asset		CU2,000

To record the settlement of the option contract. The settlement is accounted for as a treasury share transaction (i.e., no gain or loss).

(c) **Cash for Shares ("Gross Physical Settlement")**

IE15. Assume the same facts as in (a) except that settlement will be made by receiving a fixed number of shares and paying a fixed amount of cash, if Entity A exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU102. Accordingly, Entity A has a right to receive 1,000 of Entity A's own outstanding shares in exchange for CU102,000 (CU102 × 1,000) in cash, if Entity A exercises its option. Entity A records the following journal entries.

February 1, 20X2

Dr		Net assets/equity	CU5,000	
	Cr	Cash		CU5,000

To record the cash paid in exchange for the right to receive Entity A's own shares in one year for a fixed price. The premium paid is recognized in net assets/equity.

December 31, 20X2

No entry is made on December 31, because no cash is paid or received and a contract that gives a right to receive a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.

January 31, 20X3

Entity A exercises the call option and the contract is settled gross. Entity B has an obligation to deliver 1,000 of Entity A's shares in exchange for CU102,000 in cash.

Dr		Net assets/equity	CU102,000	
	Cr	Cash		CU102,000

To record the settlement of the option contract.

(d) **Settlement Options**

IE16. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the call option is a financial asset. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A repurchasing a fixed number of its own shares in exchange for paying a fixed amount of cash or another financial asset. Entity A recognizes a derivative asset, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

Example 4: Written Call Option on Shares

IE17. This example illustrates the journal entries for a written call option obligation on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

Assumptions:

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Counterparty (Entity B)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU104
Market price per share on January 31, 20X3	CU104
Fixed exercise price to be paid on January 31, 20X3	CU102
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU3,000
Fair value of option on January 31, 20X3	CU2,000

(a) Cash for Cash ("Net Cash Settlement")

IE18. Assume the same facts as in Example 3(a) above except that Entity A has written a call option on its own shares instead of having purchased a call option on them. Accordingly, on February 1, 20X2 Entity A enters into a contract with Entity B that gives Entity B the right to receive and Entity A the obligation to pay the fair value of 1,000 of Entity A's own ordinary shares as of January 31, 20X3 in exchange for CU102,000 in cash (i.e., CU102 per share) on January 31, 20X3, if Entity B exercises that right. The contract will be settled net in cash. If Entity B does not exercise its right, no payment will be made. Entity A records the following journal entries.

February 1, 20X2

Dr		Cash	CU5,000	
	Cr	Call option obligation		CU5,000

To recognize the written call option.

December 31, 20X2

Dr		Call option obligation	CU2,000	
	Cr	Gain		CU2,000

To record the decrease in the fair value of the call option.

January 31, 20X3

Dr	Call option obligation	CU1,000	
Cr	Gain		CU1,000

To record the decrease in the fair value of the option.

On the same day, Entity B exercises the call option and the contract is settled net in cash. Entity A has an obligation to deliver CU104,000 (CU104 × 1,000) to Entity B in exchange for CU102,000 (CU102 × 1,000) from Entity B, so Entity A pays a net amount of CU2,000.

Dr	Call option obligation	CU2,000	
Cr	Cash		CU2,000

To record the settlement of the option contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE19. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those shown in (a), except for recording the settlement of the option contract, as follows:

December 31, 20X3

Entity B exercises the call option and the contract is settled net in shares. Entity A has an obligation to deliver CU104,000 (CU104 × 1,000) worth of Entity A's shares to Entity B in exchange for CU102,000 (CU102 × 1,000) worth of Entity A's shares. Thus, Entity A delivers the net amount of CU2,000 worth of shares to Entity B, i.e., 19.2 shares (CU2,000/CU104).

Dr	Call option obligation	CU2,000	
Cr	Net assets/equity		CU2,000

To record the settlement of the option contract. The settlement is accounted for as a -transaction in net assets/equity.

(c) **Cash for Shares ("Gross Physical Settlement")**

IE20. Assume the same facts as in (a) except that settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash, if Entity B exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU102. Accordingly, Entity B has a right to receive 1,000 of Entity A's own outstanding shares in exchange for CU102,000 (CU102 × 1,000) in cash, if Entity B exercises its option. Entity A records the following journal entries.

February 1, 20X2

Dr	Cash	CU5,000	
Cr	Net assets/equity		CU5,000

To record the cash received in exchange for the obligation to deliver a fixed number of Entity A's own shares in one year for a fixed price. The premium received is recognized in net assets/equity. Upon exercise, the call would result in the issue of a fixed number of shares in exchange for a fixed amount of cash.

December 31, 20X2

No entry is made on December 31 because no cash is paid or received and a contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.

January 31, 20X3

Entity B exercises the call option and the contract is settled gross. Entity A has an obligation to deliver 1,000 shares in exchange for CU102,000 in cash.

Dr		Cash	CU102,000	
	Cr	Net assets/equity		CU102,000

To record the settlement of the option contract.

(d) **Settlement Options**

IE21. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the call option is a financial liability. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A issuing a fixed number of its own shares in exchange for receiving a fixed amount of cash or another financial asset. Entity A recognizes a derivative liability, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

Example 5: Purchased Put Option on Shares

IE22. This example illustrates the journal entries for a purchased put option on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

Assumptions:

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Reporting entity (Entity A)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU95
Market price per share on January 31, 20X3	CU95
Fixed exercise price to be paid on January 31, 20X3	CU98
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU4,000
Fair value of option on January 31, 20X3	CU3,000

(a) **Cash for Cash ("Net Cash Settlement")**

IE23. On February 1, 20X2, Entity A enters into a contract with Entity B that gives Entity A the right to sell, and Entity B the obligation to buy the fair value of 1,000 of Entity A’s own outstanding ordinary shares as of January 31, 20X3 at a strike price of CU98,000 (i.e., CU98 per share) on January 31, 20X3, if Entity A exercises that right. The contract will be settled net in cash. If Entity A does not exercise its right, no payment will be made. Entity A records the following journal entries.

February, 1 20X2

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the option contract on February 1, 20X2 is CU5,000, which Entity A pays to Entity B in cash on that date. On that date, the option has no intrinsic value, only time value, because the exercise price of CU98 is less than the market price per share of CU100. Therefore it would not be economic for Entity A to exercise the option. In other words, the put option is out of the money.

Dr		Put option asset	CU5,000	
	Cr	Cash		CU5,000

To recognize the purchased put option.

December 31, 20X2

On December 31, 20X2 the market price per share has decreased to CU95. The fair value of the put option has decreased to CU4,000, of which CU3,000 is intrinsic value ([CU98 – CU95] × 1,000) and CU1,000 is the remaining time value.

Dr		Loss	CU1,000	
	Cr	Put option asset		CU1,000

To record the decrease in the fair value of the put option.

January 31, 20X3

On January 31, 20X3 the market price per share is still CU95. The fair value of the put option has decreased to CU3,000, which is all intrinsic value ([CU98 – CU95] × 1,000) because no time value remains.

Dr		Loss	CU1,000	
	Cr	Put option asset		CU1,000

To record the decrease in the fair value of the option.

On the same day, Entity A exercises the put option and the contract is settled net in cash. Entity B has an obligation to deliver CU98,000 to Entity A and Entity A has an obligation to deliver CU95,000 (CU95 × 1,000) to Entity B, so Entity B pays the net amount of CU3,000 to Entity A.

Dr		Cash	CU3,000	
	Cr	Put option asset		CU3,000

To record the settlement of the option contract.

(b) **Shares for Shares (“Net Share Settlement”)**

IE24. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A’s journal entries are the same as shown in (a), except:

January 31, 20X3

Entity A exercises the put option and the contract is settled net in shares. In effect, Entity B has an obligation to deliver CU98,000 worth of Entity A's shares to Entity A, and Entity A has an obligation to deliver CU95,000 worth of Entity A's shares (CU95 × 1,000) to Entity B, so Entity B delivers the net amount of CU3,000 worth of shares to Entity A, i.e., 31.6 shares (CU3,000/CU95).

Dr		Net assets/equity	CU3,000	
	Cr	Put option asset		CU3,000

To record the settlement of the option contract.

(c) **Cash for Shares ("Gross Physical Settlement")**

IE25. Assume the same facts as in (a) except that settlement will be made by receiving a fixed amount of cash and delivering a fixed number of Entity A's shares, if Entity A exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU98. Accordingly, Entity B has an obligation to pay CU98,000 in cash to Entity A (CU98 × 1,000) in exchange for 1,000 of Entity A's outstanding shares, if Entity A exercises its option. Entity A records the following journal entries.

February 1, 20X2

Dr		Net assets/equity	CU5,000	
	Cr	Cash		CU5,000

To record the cash received in exchange for the right to deliver Entity A's own shares in one year for a fixed price. The premium paid is recognized directly in net assets/equity. Upon exercise, it results in the issue of a fixed number of shares in exchange for a fixed price.

December 31, 20X2

No entry is made on December 31, because no cash is paid or received and a contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of Entity A.

January 31, 20X3

Entity A exercises the put option and the contract is settled gross. Entity B has an obligation to deliver CU98,000 in cash to Entity A in exchange for 1,000 shares.

Dr		Cash	CU98,000	
	Cr	Net assets/equity		CU98,000

To record the settlement of the option contract.

(d) **Settlement Options**

IE26. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the put option is a financial asset. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A issuing a fixed number of its own shares in exchange for receiving a fixed amount of cash or another financial asset. Entity A recognizes a derivative asset, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

Example 6: Written Put Option on Shares

IE27. This example illustrates the journal entries for a written put option on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

Assumptions:

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Counterparty (Entity B)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU95
Market price per share on January 31, 20X3	CU95
Fixed exercise price to be paid on January 31, 20X3	CU98
Present value of exercise price on February 1, 20X2	CU95
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU4,000
Fair value of option on January 31, 20X3	CU3,000

(a) Cash for Cash ("Net Cash Settlement")

IE28. Assume the same facts as in Example 5(a) above, except that Entity A has written a put option on its own shares instead of having purchased a put option on its own shares. Accordingly, on February, 1 20X2, Entity A enters into a contract with Entity B that gives Entity B the right to receive and Entity A the obligation to pay the fair value of 1,000 of Entity A's outstanding ordinary shares as of January 31, 20X3 in exchange for CU98,000 in cash (i.e., CU98 per share) on January 31, 20X3, if Entity B exercises that right. The contract will be settled net in cash. If Entity B does not exercise its right, no payment will be made. Entity A records the following journal entries.

February 1, 20X2

Dr		Cash	CU5,000	
	Cr	Put option liability		CU5,000

To recognize the written put option.

December 31, 20X2

Dr	Put option liability	CU1,000	
Cr	Gain		CU1,000

To record the decrease in the fair value of the put option.

January 31, 20X3

Dr	Put option liability	CU1,000	
Cr	Gain		CU1,000

To record the decrease in the fair value of the put option.

On the same day, Entity B exercises the put option and the contract is settled net in cash. Entity A has an obligation to deliver CU98,000 to Entity B, and Entity B has an obligation to deliver CU95,000 (CU95 × 1,000) to Entity A. Thus, Entity A pays the net amount of CU3,000 to Entity B.

Dr	Put option liability	CU3,000	
Cr	Cash		CU3,000

To record the settlement of the option contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE29. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those in (a), except for the following:

January 31, 20X3

Entity B exercises the put option and the contract is settled net in shares. In effect, Entity A has an obligation to deliver CU98,000 worth of shares to Entity B, and Entity B has an obligation to deliver CU95,000 worth of Entity A's shares (CU95 × 1,000) to Entity A. Thus, Entity A delivers the net amount of CU3,000 worth of Entity A's shares to Entity B, i.e., 31.6 shares (3,000/95).

Dr	Put option liability	CU3,000	
Cr	Net assets/equity		CU3,000

To record the settlement of the option contract. The issue of Entity A's own shares is accounted for as a transaction in net assets/equity.

(c) **Cash for Shares ("Gross Physical Settlement")**

IE30. Assume the same facts as in (a) except that settlement will be made by delivering a fixed amount of cash and receiving a fixed number of shares, if Entity B exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU98. Accordingly, Entity A has an obligation to pay CU98,000 in cash to Entity B (CU98 × 1,000) in exchange for 1,000 of Entity A's outstanding shares, if Entity B exercises its option. Entity A records the following journal entries.

February 1, 20X2

Dr	Cash	CU5,000	
Cr	Net assets/equity		CU5,000

To recognize the option premium received of CU5,000 in net assets/equity.

Dr		Net assets/equity	CU95,000	
	Cr	Liability		CU95,000

To recognize the present value of the obligation to deliver CU98,000 in one year, i.e., CU95,000, as a liability.

December 31, 20X2

Dr		Interest expense	CU2,750	
	Cr	Liability		CU2,750

To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.

January 31, 20X3

Dr		Interest expense	CU250	
	Cr	Liability		CU250

To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.

On the same day, Entity B exercises the put option and the contract is settled gross. Entity A has an obligation to deliver CU98,000 in cash to Entity B in exchange for CU95,000 worth of shares (CU95 × 1,000).

Dr		Liability	CU98,000	
	Cr	Cash		CU98,000

To record the settlement of the option contract.

(d) **Settlement Options**

IE31. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the written put option is a financial liability. If one of the settlement alternatives is to exchange cash for shares ((c) above), Entity A recognizes a liability for the obligation to deliver cash, as illustrated in (c) above. Otherwise, Entity A accounts for the put option as a derivative liability.

Entities such as Mutual Funds and Co-operatives Whose Share Capital is not Net Assets/Equity

Example 7: Entities with No Net Assets/Equity

IE32. The following example illustrates a format of a statement of financial performance and statement of financial position that may be used by entities such as mutual funds that do not have net assets/equity. Other formats are possible.

Statement of Financial Performance for the year ended December 31, 20X1

	20X1	20X0
	CU	CU
Revenue	2,956	1,718
Total Revenue	2,956	1,718
Expenses (classified by nature or function)	(644)	(614)
Finance costs		
– other finance costs	(47)	(47)
– distributions to unitholders	(50)	(50)
Total Expenses	(741)	(711)
Surplus for the year	2,215	1,007
Change in net assets attributable to unitholders	2,215	1,007

Statement of Financial Position at December 31, 20X1

		20X1		20X0
	CU	CU	CU	CU
ASSETS				
Non-current assets (classified in accordance with IPSAS 1)	91,374		78,484	
Total non-current assets		91,374		78,484
Current assets (classified in accordance with IPSAS 1)	1,422		1,769	
Total current assets		1,422		1,769
Total assets		92,796		80,253
LIABILITIES				
Current liabilities (classified in accordance with IPSAS 1)	647		66	
Total current liabilities		(647)		(66)
Non-current liabilities excluding net assets attributable to unitholders (classified in accordance with IPSAS 1)	280		136	
		(280)		(136)

Statement of Financial Position at December 31, 20X1

Net assets attributable to unitholders	91,869	80,051

Example 8: Entities with Some Net Assets/Equity

IE33. The following example illustrates a format of a statement of financial performance and statement of financial position that may be used by entities whose share capital is not net assets/equity because the entity has an obligation to repay the share capital on demand. Other formats are possible.

Statement of Financial Performance for the year ended December 31, 20X1

	20X1	20X0
	CU	CU
Revenue	472	498
Total Revenue	472	498
Expenses (classified by nature or function)	(367)	(396)
Finance costs		
– other finance costs	(4)	(4)
– distributions to members	(50)	(50)
Total Expenses	(421)	(450)
Surplus for the year	51	48
Change in net assets attributable to members	51	48

Statement of Financial Position at December 31, 20X1

		20X1		20X0
	CU	CU	CU	CU
ASSETS				
Non-current assets (classified in accordance with IPSAS 1)	908		830	

Statement of Financial Position at December 31, 20X1

Total non-current assets		908		830
Current assets (classified in accordance with IPSAS 1)	383		350	
Total current assets		383		350
Total assets		1,291		1,180
LIABILITIES				
Current liabilities (classified in accordance with IPSAS 1)	372		338	
Share capital repayable on demand	202		161	
Total current liabilities		(574)		(499)
Total assets less current liabilities		717		681
Non-current liabilities (classified in accordance with IPSAS 1)	187		196	
		(187)		(196)
OTHER COMPONENTS OF NET ASSETS/EQUITY(a)				
Reserves, e.g., revaluation surplus, accumulated surplus, etc.	530		485	
		530		485
		717		681
MEMORANDUM NOTE – Total members' interests				
Share capital repayable on demand		202		161
Reserves		530		485
		732		646

(a) In this example, the entity has no obligation to deliver a share of its reserves to its members.

Accounting for Compound Financial Instruments

Example 9: Separation of a Compound Financial Instrument on Initial Recognition

IE34. Paragraph 33 describes how the components of a compound financial instrument are separated by the entity on initial recognition. The following example illustrates how such a separation is made.

IE35. An entity issues 2,000 convertible bonds at the start of year 1. The bonds have a three-year term, and are issued at par with a face value of CU1,000 per bond, giving total proceeds of CU2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 percent. Each bond is convertible at any time up to maturity into 250 ordinary shares. When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9 percent.

IE36. The liability component is measured first, and the difference between the proceeds of the bond issue and the fair value of the liability is assigned to the net assets/equity component. The present value of the liability component is calculated using a discount rate of 9 percent, the market interest rate for similar bonds having no conversion rights, as shown below.

	CU
Present value of the principal – CU2,000,000 payable at the end of three years	1,544,367
Present value of the interest – CU120,000 payable annually in arrears for three years	303,755
Total liability component	1,848,122
Net assets/equity component (by deduction)	151,878
Proceeds of the bond issue	2,000,000

Example 10: Separation of a Compound Financial Instrument with Multiple Embedded Derivative Features

IE37. The following example illustrates the application of paragraph 36 to the separation of a compound financial instrument with multiple embedded derivative features into the liability and net assets/equity component.

IE38. Assume that the proceeds received on the issue of a callable convertible bond are CU60. The value of a similar bond without a call or equity conversion option is CU57. Based on an option pricing model, it is determined that the value to the entity of the embedded call feature in a similar bond without an equity conversion option is CU2. In this case, the value allocated to the liability component under paragraph 36 is CU55 (CU57 – CU2) and the value allocated to the net assets/equity component is CU5 (CU60 – CU55).

Example 11: Repurchase of a Convertible Instrument

IE39. The following example illustrates how an entity accounts for a repurchase of a convertible instrument. For simplicity, at inception, the face amount of the instrument is assumed to be equal to the aggregate carrying amount of the liability and the net assets/equity components in the financial statements, i.e., no original issue premium or discount exists. Also, for simplicity, tax considerations have been omitted from the example.

IE40. On January 1, 20X0, Entity A issued a 10 percent convertible debenture with a face value of CU1,000 maturing on December 31, 20X9. The debenture is convertible into ordinary shares of Entity A at a conversion price of CU25 per share. Interest is payable half-yearly in cash. At the date of issue, Entity A could have issued non-convertible debt with a ten-year term bearing a coupon interest rate of 11 percent.

IE41. In the financial statements of Entity A the carrying amount of the debenture was allocated on issue as follows:

	CU
Liability component	
Present value of 20 half-yearly interest payments of CU50, discounted at 11%	597
Present value of CU1,000 due in 10 years, discounted at 11%, compounded half-yearly	343
	940
Net assets/equity component	
(difference between CU1,000 total proceeds and CU940 allocated above)	60
Total proceeds	1,000

IE42. On January 1, 20X5 the convertible debenture has a fair value of CU1,700.

IE43. Entity A makes a tender offer to the holder of the debenture to repurchase the debenture for CU1,700, which the holder accepts. At the date of repurchase, Entity A could have issued non-convertible debt with a five-year term bearing a coupon interest rate of 8 percent.

IE44. The repurchase price is allocated as follows:

	Carrying value	**Fair value**	**Difference**
Liability component:	CU	CU	CU
Present value of 10 remaining half-yearly interest payments of CU50, discounted at 11% and 8%, respectively	377	405	
Present value of CU1,000 due in 5 years, discounted at 11% and 8%, compounded half-yearly, respectively	585	676	
	962	1,081	(119)
Net assets/equity component	60	619(a)	(559)
Total	1,022	1,700	(678)

(a) This amount represents the difference between the fair value amount allocated to the liability component and the repurchase price of CU1,700.

IE45. Entity A recognizes the repurchase of the debenture as follows:

Dr	Liability component	CU962	
Dr	Debt settlement expense (surplus or deficit)	CU119	
Cr	Cash		CU1,081

To recognize the repurchase of the liability component.

Dr	Net assets/equity	CU619	
Cr	Cash		CU619

To recognize the cash paid for the net assets/equity component.

IE46. The net assets/equity component remains as net assets/equity, but may be transferred from one line item within net assets/equity to another.

Example 12: Amendment of the Terms of a Convertible Instrument to Induce Early Conversion

IE47. The following example illustrates how an entity accounts for the additional consideration paid when the terms of a convertible instrument are amended to induce early conversion.

IE48. On January 1, 20X0, Entity A issued a 10 percent convertible debenture with a face value of CU1,000 with the same terms as described in Example 9. On January 1, 20X1, to induce the holder to convert the convertible debenture promptly, Entity A reduces the conversion price to CU20 if the debenture is converted before March 1, 20X1 (i.e., within 60 days).

IE49. Assume the market price of Entity A's ordinary shares on the date the terms are amended is CU40 per share. The fair value of the incremental consideration paid by Entity A is calculated as follows:

Number of ordinary shares to be issued to debenture holders under *amended* conversion terms:

Face amount	CU1,000	
New conversion price	CU20	per share
Number of ordinary shares to be issued on conversion	50	shares

Number of ordinary shares to be issued to debenture holders under **original** *conversion terms:*

Face amount	CU1,000	
Original conversion price	/CU25	per share
Number of ordinary shares to be issued on conversion	40	Shares
Number of incremental ordinary shares issued upon conversion	10	Shares
Value of **incremental** *ordinary shares issued upon conversion*		
CU40 per share x 10 incremental shares	CU400	

IE50. The incremental consideration of CU400 is recognized as a loss in surplus or deficit.

COMPARISON WITH IAS 32

IPSAS 28, *Financial Instruments: Presentation* is drawn primarily from IAS 32, *Financial Instruments: Presentation* (issued originally in 2003, including amendments up to December 31, 2008). The main differences between IPSAS 28 and IAS 32 are as follows:

- IAS 32 allows entities to treat financial guarantee contracts as insurance contracts where entities have previously asserted that such contracts are insurance contracts. IPSAS 28 allows a similar election, except that entities need not have explicitly asserted that financial guarantees are insurance contracts.
- In certain instances, IPSAS 28 uses different terminology from IAS 32. The most significant examples are the use of the terms "statement of financial performance" and "net assets/equity." The equivalent terms in IAS 32 are "statement of comprehensive income or separate income statement (if presented)" and "equity."
- IPSAS 28 does not distinguish between "revenue" and "income." IAS 32 distinguishes between "revenue" and "income," with "income" having a broader meaning than the term "revenue."
- IPSAS 28 contains additional Application Guidance dealing with the identification of arrangements that are, in substance, contractual.
- IPSAS 28 contains additional Application Guidance on when assets and liabilities arising from non-exchange revenue transactions are financial assets or financial liabilities.
- Principles from IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments* have been included as an Appendix in IPSAS 28.
- The transitional provisions in IPSAS 28 differ from those in IAS 32. This is because IPSAS 28 provides transitional provisions for those entities applying this Standard for the first time or those applying accrual accounting for the first time.

IPSAS 29—FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 39, *Financial Instruments: Recognition and Measurement*, International Financial Reporting Interpretations Committee (IFRIC®) Interpretation 9, *Reassessment of Embedded Derivatives*, (IFRIC 9) and Interpretation 16, *Hedges of a Net Investment in a Foreign Operation* (IFRIC 16) published by the International Accounting Standards Board (IASB®). Extracts from IAS 39, IFRIC 9, and IFRIC 16 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 29—FINANCIAL INSTRUMENTS:RECOGNITION AND MEASUREMENT

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 29, *Financial Instruments: Recognition and Measurement* was issued in January 2010.

Since then, IPSAS 29 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- IPSAS 32, *Service Concession Arrangements: Grantor* (issued October 2011)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 29

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
1	Deleted	IPSAS 41 August 2018
2	Amended	IPSAS 32 October 2011 IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 39 July 2016 IPSAS 40 January 2017 IPSAS 41 August 2018
3	Deleted	IPSAS 41 August 2018
4	Deleted	IPSAS 41 August 2018
5	Deleted	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
6	Deleted	IPSAS 41 August 2018
7	Deleted	*The Applicability of IPSAS* April 2016
8	Deleted	The Applicability of IPSAS April 2016
9	Amended	IPSAS 41 August 2018
10	Amended	IPSAS 41 August 2018
11–79	Deleted	IPSAS 41 August 2018
80	Amended	IPSAS 41 August 2018
88	Deleted	IPSAS 41 August 2018
89	Amended	IPSAS 35 January 2015
98	Amended	IPSAS 41 August 2018
99	Amended	IPSAS 41 August 2018
101	Amended	IPSAS 41 August 2018
102	Amended	IPSAS 41 August 2018
107	Amended	IPSAS 41 August 2018
108	Amended	IPSAS 41 August 2018
109	Amended	IPSAS 41 August 2018
111	Amended	IPSAS 41 August 2018
112	Amended	IPSAS 41 August 2018
113	Amended	IPSAS 41 August 2018
Heading above paragraph 113A	New	*Improvements to IPSAS* January 2022
113A	New	*Improvements to IPSAS* January 2022
113B	New	*Improvements to IPSAS* January 2022
113C	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113D	New	*Improvements to IPSAS* January 2022
113D	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113E	New	*Improvements to IPSAS* January 2022
113E	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113F	New	*Improvements to IPSAS* January 2022
113F	New	*Improvements to IPSAS* January 2022
113G	New	*Improvements to IPSAS* January 2022

Paragraph Affected	How Affected	Affected By
Heading above paragraph 113H	New	*Improvements to IPSAS* January 2022
113H	New	*Improvements to IPSAS* January 2022
113I	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113J	New	*Improvements to IPSAS* January 2022
113J	New	*Improvements to IPSAS* January 2022
113K	New	*Improvements to IPSAS* January 2022
113L	New	*Improvements to IPSAS* January 2022
113M	New	*Improvements to IPSAS* January 2022
113N	New	*Improvements to IPSAS* January 2022
113O	New	*Improvements to IPSAS* January 2022
113P	New	*Improvements to IPSAS* January 2022
113Q	New	*Improvements to IPSAS* January 2022
113R	New	*Improvements to IPSAS* January 2022
113S	New	*Improvements to IPSAS* January 2022
113T	New	*Improvements to IPSAS* January 2022
113U	New	*Improvements to IPSAS* January 2022
Headings above paragraph 113V	New	*Improvements to IPSAS* January 2022
113V	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113W	New	*Improvements to IPSAS* January 2022
113W	New	*Improvements to IPSAS* January 2022
113X	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113Y	New	*Improvements to IPSAS* January 2022
113Y	New	*Improvements to IPSAS* January 2022
113Z	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113ZA	New	*Improvements to IPSAS* January 2022
113ZA	New	*Improvements to IPSAS* January 2022
113ZB	New	*Improvements to IPSAS* January 2022
113ZC	New	*Improvements to IPSAS* January 2022
114	Deleted	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
115	Deleted	IPSAS 33 January 2015
116	Deleted	IPSAS 33 January 2015
117	Deleted	IPSAS 33 January 2015
118	Deleted	IPSAS 33 January 2015
119	Deleted	IPSAS 33 January 2015
120	Deleted	IPSAS 33 January 2015
121	Deleted	IPSAS 33 January 2015
122	Deleted	IPSAS 33 January 2015
123	Deleted	IPSAS 33 January 2015
125A	Amended	IPSAS 32 October 2011 IPSAS 43 January 2022
125B	New	IPSAS 33 January 2015
125C	New	IPSAS 35 January 2015 IPSAS 37 January 2015
125D	New	*Improvements to IPSAS* April 2016
125E	New	*The Applicability of IPSAS* April 2016
125F	New	IPSAS 39 July 2016
125G	New	IPSAS 40 January 2017
125H	Amended	*COVID-19: Deferral of Effective Dates* November 2020
125I	New	*Improvements to IPSAS* January 2022
125J	New	*Improvements to IPSAS* January 2022
125K	New	*Improvements to IPSAS* January 2022
125L	New	*Improvements to IPSAS* January 2022
125M	New	*Improvements to IPSAS* January 2022
126	Amended	IPSAS 33 January 2015
AG35	Amended	IPSAS 40 January 2017
AG51	Amended	IPSAS 35 January 2015
AG52	Amended	IPSAS 35 January 2015
AG53	Amended	IPSAS 35 January 2015
AG1–AG126	Deleted	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
AG128	Amended	IPSAS 41 August 2018
AG129	Deleted	IPSAS 41 August 2018
AG131	Amended	IPSAS 40 January 2017
AG134	Amended	IPSAS 41 August 2018
AG156A	New	IPSAS 41 August 2018
AG157	Amended	IPSAS 41 August 2018
AG161	Amended	IPSAS 41 August 2018
B1–B7	Deleted	IPSAS 41 August 2018
C2	Amended	IPSAS 37 January 2015
A.1–G.2	Deleted	IPSAS 41 August 2018
IE32–IE50	Deleted	IPSAS 41 August 2018

IPSAS 29—FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

CONTENTS

International Public Sector Accounting Standard 29, *Financial Instruments: Recognition and Measurement*, is set out in paragraphs 1–126. All the paragraphs have equal authority. IPSAS 29 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. [Deleted]

Scope

2. **This Standard shall be applied by all entities to all financial instruments within the scope of IPSAS 41, *Financial Instruments* if, and to the extent that:**

   (a) **IPSAS 41 permits the hedge accounting requirements of this Standard to be applied; and**

   (b) **The financial instrument is part of a hedging relationship that qualifies for hedge accounting in accordance with this Standard.**

3–8 [Deleted]

Definitions

9. The terms defined in IPSAS 28 and IPSAS 41 are used in this Standard with the meanings specified in paragraph 9 of IPSAS 28 and paragraph 9 of IPSAS 41. IPSAS 28 and IPSAS 41 define the following terms:

   - Amortized cost of a financial asset or financial liability;
   - Derecognition;
   - Derivative;
   - Effective interest method;
   - Effective interest rate;
   - Equity instrument;
   - Financial asset;
   - Financial instrument;
   - Financial liability;
   - Firm commitment;
   - Forecast transaction;

   and provides guidance on applying those definitions.

10. **The following terms are used in this Standard with the meanings specified:**

    Definitions relating to hedge accounting

    A <u>hedging instrument</u> is a designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item (paragraphs 81–86 and Appendix A paragraphs AG127–AG130 elaborate on the definition of a hedging instrument).

    A <u>hedged item</u> is an asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged (paragraphs 87–94 and Appendix A paragraphs AG131–AG141 elaborate on the definition of hedged items).

<u>Hedge effectiveness</u> is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument (see Appendix A paragraphs AG145–AG156).

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.

11–79. [Deleted]

Hedging

80. **If an entity applies IPSAS 41 and has not chosen as its accounting policy to continue to apply the hedge accounting requirements of this Standard (see paragraph 177 of IPSAS 41), it shall apply the hedge accounting requirements in paragraphs 113–155 of IPSAS 41. However, for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities, an entity may, in accordance with paragraph 115 of IPSAS 41, apply the hedge accounting requirements in this Standard instead of those in IPSAS 41. In that case the entity must also apply the specific requirements for fair value hedge accounting for a portfolio hedge of interest rate risk (see paragraphs 91, 100 and AG157–AG175).**

Hedging Instruments

Qualifying Instruments

81. This Standard does not restrict the circumstances in which a derivative may be designated as a hedging instrument provided the conditions in paragraph 98 are met, except for some written options (see Appendix A paragraph AG127). However, a non-derivative financial asset or non-derivative financial liability may be designated as a hedging instrument only for a hedge of a foreign currency risk.

82. For hedge accounting purposes, only instruments that involve a party external to the reporting entity (i.e., external to the economic entity or individual entity that is being reported on) can be designated as hedging instruments. Although individual entities within an economic entity or divisions within an entity may enter into hedging transactions with other entities within the economic entity or divisions within the entity, any such transactions within the economic entity are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the economic entity. However, they may qualify for hedge accounting in the individual or separate financial statements of individual entities within the economic entity provided that they are external to the individual entity that is being reported on.

Designation of Hedging Instruments

83. There is normally a single fair value measure for a hedging instrument in its entirety, and the factors that cause changes in fair value are co-dependent. Thus, a hedging relationship is designated by an entity for a hedging instrument in its entirety. The only exceptions permitted are:

(a) Separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and excluding change in its time value; and

(b) Separating the interest element and the spot price of a forward contract.

These exceptions are permitted because the intrinsic value of the option and the premium on the forward can generally be measured separately. A dynamic hedging strategy that assesses both the intrinsic value and time value of an option contract can qualify for hedge accounting.

84. A proportion of the entire hedging instrument, such as 50 percent of the notional amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging relationship may not be designated for only a portion of the time period during which a hedging instrument remains outstanding.

85. A single hedging instrument may be designated as a hedge of more than one type of risk provided that (a) the risks hedged can be identified clearly; (b) the effectiveness of the hedge can be demonstrated; and (c) it is possible to ensure that there is specific designation of the hedging instrument and different risk positions.

86. Two or more derivatives, or proportions of them (or, in the case of a hedge of currency risk, two or more non-derivatives or proportions of them, or a combination of derivatives and non-derivatives or proportions of them), may be viewed in combination and jointly designated as the hedging instrument, including when the risk(s) arising from some derivatives offset(s) those arising from others. However, an interest rate collar or other derivative instrument that combines a written option and a purchased option does not qualify as a hedging instrument if it is, in effect, a net written option (for which a net premium is received). Similarly, two or more instruments (or proportions of them) may be designated as the hedging instrument only if none of them is a written option or a net written option.

Hedged Items

Qualifying Items

87. A hedged item can be a recognized asset or liability, an unrecognized firm commitment, a highly probable forecast transaction or a net investment in a foreign operation. The hedged item can be (a) a single asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation, (b) a group of assets, liabilities, firm commitments, highly probable forecast transactions or net investments in foreign operations with similar risk characteristics, or (c) in a portfolio hedge of interest rate risk only, a portion of the portfolio of financial assets or financial liabilities that share the risk being hedged.

88. [Deleted]

89. For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items. It follows that hedge accounting can be applied to transactions between entities in the same economic entity only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the economic entity except for the consolidated financial statements of an investment entity, as defined in IPSAS 35, where transactions between an investment entity and its controlled entities measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements. As an exception, the foreign currency risk of monetary item within an economic entity (e.g., a payable/receivable between two controlled entities) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. In accordance with IPSAS 4, foreign exchange rate gains and losses on monetary items within an economic entity are not fully eliminated on consolidation when the monetary item is transacted between two entities within the economic entity that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast transaction within the economic entity may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated surplus or deficit.

Designation of Financial Items as Hedged Items

90. If the hedged item is a financial asset or financial liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value (such as one or more selected contractual cash flows or portions of them or a percentage of the fair value) provided that effectiveness can be measured. For example, an identifiable and separately measurable portion of the interest rate exposure of an interest-bearing asset or interest-bearing liability may be designated as the hedged risk (such as a risk-free interest

rate or benchmark interest rate component of the total interest rate exposure of a hedged financial instrument).

91. a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only in such a hedge), the portion hedged may be designated in terms of an amount of a currency (e.g., an amount of dollars, euro, pounds or rand) rather than as individual assets (or liabilities). Although the portfolio may, for risk management purposes, include assets and liabilities, the amount designated is an amount of assets or an amount of liabilities. Designation of a net amount including assets and liabilities is not permitted. The entity may hedge a portion of the interest rate risk associated with this designated amount. For example, in the case of a hedge of a portfolio containing prepayable assets, the entity may hedge the change in fair value that is attributable to a change in the hedged interest rate on the basis of expected, rather than contractual, repricing dates. When the portion hedged is based on expected repricing dates, the effect that changes in the hedged interest rate have on those expected repricing dates shall be included when determining the change in the fair value of the hedged item. Consequently, if a portfolio that contains prepayable items is hedged with a non-prepayable derivative, ineffectiveness arises if the dates on which items in the hedged portfolio are expected to prepay are revised, or actual prepayment dates differ from those expected.

Designation of Non-Financial Items as Hedged Items

92. **If the hedged item is a non-financial asset or non-financial liability, it shall be designated as a hedged item (a) for foreign currency risks, or (b) in its entirety for all risks, because of the difficulty of isolating and measuring the appropriate portion of the cash flows or fair value changes attributable to specific risks other than foreign currency risks.**

Designation of Groups of Items as Hedged Items

93. Similar assets or similar liabilities shall be aggregated and hedged as a group only if the individual assets or individual liabilities in the group share the risk exposure that is designated as being hedged. Furthermore, the change in fair value attributable to the hedged risk for each individual item in the group shall be expected to be approximately proportional to the overall change in fair value attributable to the hedged risk of the group of items.

94. Because an entity assesses hedge effectiveness by comparing the change in the fair value or cash flow of a hedging instrument (or group of similar hedging instruments) and a hedged item (or group of similar hedged items), comparing a hedging instrument with an overall net position (e.g., the net of all fixed rate assets and fixed rate liabilities with similar maturities), rather than with a specific hedged item, does not qualify for hedge accounting.

Hedge Accounting

95. Hedge accounting recognizes the offsetting effects on surplus or deficit of changes in the fair values of the hedging instrument and the hedged item.

96. **Hedging relationships are of three types:**

(a) **Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect surplus or deficit.**

(b) **Cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect surplus or deficit.**

(c) **Hedge of a net investment in a foreign operation as defined in IPSAS 4.**

97. A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.

98. **A hedging relationship qualifies for hedge accounting under paragraphs 99–113 if, and only if, all of the following conditions are met.**

(a) **At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.**

(b) **The hedge is expected to be highly effective (see Appendix A paragraphs AG145–AG156) in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.**

(c) **For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect surplus or deficit.**

(d) **The effectiveness of the hedge can be reliably measured, i.e., the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.**

(e) **The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.**

Fair Value Hedges

99. **If a fair value hedge meets the conditions in paragraph 98 during the period, it shall be accounted for as follows:**

(a) **The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with IPSAS 4 (for a non-derivative hedging instrument) shall be recognized in surplus or deficit; and**

(b) **The gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in surplus or deficit. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in surplus or deficit applies if the hedged item is a financial asset measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41.**

100. For a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities (and only in such a hedge), the requirement in paragraph 99(b) may be met by presenting the gain or loss attributable to the hedged item either:

(a) In a single separate line item within assets, for those repricing time periods for which the hedged item is an asset; or

(b) In a single separate line item within liabilities, for those repricing time periods for which the hedged item is a liability.

The separate line items referred to in (a) and (b) above shall be presented next to financial assets or financial liabilities. Amounts included in these line items shall be removed from the statement of financial position when the assets or liabilities to which they relate are derecognized.

101. If only particular risks attributable to a hedged item are hedged, recognized changes in the fair value of the hedged item unrelated to the hedged risk are recognized as set out in paragraph 101 of IPSAS 41.

102. **An entity shall discontinue prospectively the hedge accounting specified in paragraph 99 if:**

(a) **The hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy. Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:**

(i) **As a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organization' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organization or a client of a clearing member of a clearing organization, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.**

(ii) **Other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.**

(b) **The hedge no longer meets the criteria for hedge accounting in paragraph 98; or**

(c) **The entity revokes the designation.**

103. **Any adjustment arising from paragraph 99(b) to the carrying amount of a hedged financial instrument for which the effective interest method is used (or, in the case of a portfolio hedge of interest rate risk, to the separate line item in the statement of financial position described in paragraph 100) shall be amortized to surplus or deficit. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The adjustment is based on a recalculated effective interest rate at the date amortization begins. However, if, in the case of a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only in such a hedge), amortizing using a recalculated effective interest rate is not practicable, the adjustment shall be amortized using a straight-line method. The adjustment shall be amortized fully by maturity of the financial instrument or, in the case of a portfolio hedge of interest rate risk, by expiry of the relevant repricing time period.**

104. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in surplus or deficit (see paragraph 99(b)). The changes in the fair value of the hedging instrument are also recognized in surplus or deficit.

105. When an entity enters into a firm commitment to acquire an asset or assume a liability that is a hedged item in a fair value hedge, the initial carrying amount of the asset or liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the firm commitment attributable to the hedged risk that was recognized in the statement of financial position.

Cash Flow Hedges

106. **If a cash flow hedge meets the conditions in paragraph 98 during the period, it shall be accounted for as follows:**

(a) **The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 98) shall be recognized directly in net assets/equity through the statement of changes in net assets/equity; and**

(b) **The ineffective portion of the gain or loss on the hedging instrument shall be recognized in surplus or deficit.**

107. More specifically, a cash flow hedge is accounted for as follows:

(a) The separate component of net assets/equity associated with the hedged item is adjusted to the lesser of the following (in absolute amounts):

(i) The cumulative gain or loss on the hedging instrument from inception of the hedge; and

(ii) The cumulative change in fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge;

(b) Any remaining gain or loss on the hedging instrument or designated component of it (that is not an effective hedge) is recognized in surplus or deficit; and

(c) If an entity's documented risk management strategy for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument (see paragraphs 83, 84, and 98(a)), that excluded component of gain or loss is recognized in accordance with paragraph 101 of IPSAS 41.

108. **If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in net assets/equity in accordance with paragraph 106 shall be reclassified into surplus or deficit as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects surplus or deficit (such as in the periods that interest revenue or interest expense is recognized). However, if an entity expects that all or a portion of a loss recognized directly in net assets/equity will not be recovered in one or more future periods, it shall reclassify into surplus or deficit as a reclassification adjustment the amount that is not expected to be recovered.**

109. **If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the entity shall adopt (a) or (b) below:**

(a) **It reclassifies the associated gains and losses that were recognized directly in net assets/equity in accordance with paragraph 106 into surplus or deficit as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects surplus or deficit (such as in the periods that depreciation or inventories are recognized as an expense). However, if an entity expects that all or a portion of a loss recognized directly in net assets/equity will not be recovered in one or more future periods, it shall reclassify from net**

assets/equity into surplus or deficit as a reclassification adjustment the amount that is not expected to be recovered.

(b) **It removes the associated gains and losses that were recognized directly in net assets/equity in accordance with paragraph 106, and includes them in the initial cost or other carrying amount of the asset or liability.**

110. **An entity shall adopt either (a) or (b) in paragraph 109 as its accounting policy and shall apply it consistently to all hedges to which paragraph 109 relates.**

111. **For cash flow hedges other than those covered by paragraphs 108 and 109, amounts that had been recognized directly in net assets/equity shall be recognized in surplus or deficit as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects surplus or deficit (e.g., when a forecast sale occurs).**

112. **In any of the following circumstances an entity shall discontinue prospectively the hedge accounting specified in paragraphs 106–111:**

(a) **The hedging instrument expires or is sold, terminated or exercised. In this case, the cumulative gain or loss on the hedging instrument that remains recognized directly in net assets/equity from the period when the hedge was effective (see paragraph 106(a)) shall remain separately recognized in net assets/equity until the forecast transaction occurs. When the transaction occurs, paragraph 108, 109, or 111 applies. For the purpose of this subparagraph, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy. Additionally, for the purpose of this subparagraph there is not an expiration or termination of the hedging instrument if:**

(i) **As a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organization' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organization or a client of a clearing member of a clearing organization, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.**

(ii) **Other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.**

(b) **The hedge no longer meets the criteria for hedge accounting in paragraph 98. In this case, the cumulative gain or loss on the hedging instrument that remains recognized directly in net assets/equity from the period when the hedge was effective (see paragraph 106(a)) shall remain separately recognized in net assets/equity until the forecast transaction occurs. When the transaction occurs, paragraph 108, 109, or 111 applies.**

(c) **The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognized directly in net assets/equity**

from the period when the hedge was effective (see paragraph 106(a)) shall be recognized in surplus or deficit as a reclassification adjustment. A forecast transaction that is no longer highly probable (see paragraph 98(c)) may still be expected to occur.

(d) **The entity revokes the designation. For hedges of a forecast transaction, the cumulative gain or loss on the hedging instrument that remains recognized directly in net assets/equity from the period when the hedge was effective (see paragraph 106(a)) shall remain separately recognized in net assets/equity until the forecast transaction occurs or is no longer expected to occur. When the transaction occurs, paragraph 108, 109, or 111 applies. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognized directly in net assets/equity shall be recognized in surplus or deficit as a reclassification adjustment.**

Hedges of a Net Investment

113. **Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see IPSAS 4), shall be accounted for similarly to cash flow hedges:**

(a) **The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 98) shall be recognized directly in net assets/equity through the statement of changes in net assets/equity (see IPSAS 1); and**

(b) **The ineffective portion shall be recognized in surplus or deficit.**

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized directly in net assets/equity shall be recognized in surplus or deficit as a reclassification adjustment in accordance with paragraphs 56–57 of IPSAS 4 on disposal of the foreign operation.

Temporary Exceptions from Applying Specific Hedge Accounting Requirements

113A. An entity shall apply paragraphs 113D–113N and 125I to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

(a) The interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) The timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

113B. For the purpose of applying paragraphs 113D–113N, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'.[1]

113C. Paragraphs 113D–113N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

[1] The report, 'Reforming Major Interest Rate Benchmarks', is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

Highly Probable Requirement for Cash Flow Hedges

113D. For the purpose of applying the requirement in paragraph 98(c) that a forecast transaction must be highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the Cumulative Gain or Loss Recognized in Net Assets/Equity

113E. For the purpose of applying the requirement in paragraph 112(c) in order to determine whether the forecast transaction is no longer expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Effectiveness Assessment

113F. For the purpose of applying the requirements in paragraphs 98(b) and AG145(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

113G. For the purpose of applying the requirement in paragraph 98(e), an entity is not required to discontinue a hedging relationship because the actual results of the hedge do not meet the requirements in paragraph AG145(b). For the avoidance of doubt, an entity shall apply the other conditions in paragraph 98, including the prospective assessment in paragraph 98(b), to assess whether the hedging relationship must be discontinued.

Designating Financial Items as Hedged Items

113H. Unless paragraph 113I applies, for a hedge of a non-contractually specified benchmark portion of interest rate risk, an entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion shall be separately identifiable—only at the inception of the hedging relationship.

113I. When an entity, consistent with its hedge documentation, frequently resets (i.e., discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (i.e., the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of Application

113J. An entity shall prospectively cease applying paragraph 113D to a hedged item at the earlier of:

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) When the hedging relationship that the hedged item is part of is discontinued.

113K. An entity shall prospectively cease applying paragraph 113E at the earlier of:

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and

(b) When the entire cumulative gain or loss recognized in net assets/equity with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.

113L. An entity shall prospectively cease applying paragraph 113F:

(a) To a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) To a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 113L(a) or the date specified in paragraph 113L(b), the entity shall prospectively cease applying paragraph 113F to that hedging relationship at the date of discontinuation.

113M. An entity shall prospectively cease applying paragraph 113G to a hedging relationship at the earlier of:

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item and of the hedging instrument; and

(b) When the hedging relationship to which the exception is applied is discontinued.

113N. When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 113D–113G to an individual item or financial instrument in accordance with paragraphs 113J, 113K, 113L, or 113M, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

113O. An entity shall prospectively cease applying paragraphs 113H and 113I at the earlier of:

(a) When changes required by interest rate benchmark reform are made to the non-contractually specified risk portion applying paragraph 113P; or

(b) When the hedging relationship in which the non-contractually specified risk portion is designated is discontinued.

Additional Temporary Exceptions Arising from Interest Rate Benchmark Reform

Hedge Accounting

113P. As and when the requirements in paragraphs 113D–113I cease to apply to a hedging relationship (see paragraphs 113J–13O), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 72B–72D of IPSAS 41. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) Designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

(b) Amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;

(c) Amending the description of the hedging instrument; or

(d) Amending the description of how the entity will assess hedge effectiveness.

113Q. An entity also shall apply the requirement in paragraph 113P(c) if these three conditions are met:

(a) The entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 72B of IPSAS 41);

(b) The original hedging instrument is not derecognized; and

(c) The chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 72C and 72D of IPSAS 41).

113R. The requirements in paragraphs 113D–113I may cease to apply at different times. Therefore, applying paragraph 113P, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 113V–113ZB as applicable. An entity also shall apply paragraph 99 (for a fair value hedge) or paragraph 107 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

113S. An entity shall amend a hedging relationship as required in paragraph 113P by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

113T. If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 72B–72D of IPSAS 41) or to the designation of the hedging relationship (as required by paragraph 113P), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 113P.

113U. Paragraphs 113V–113ZC provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 98, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for Qualifying Hedging Relationships

Retrospective Effectiveness Assessment

113V. For the purpose of assessing the retrospective effectiveness of a hedging relationship on a cumulative basis applying paragraph 98(e) and only for this purpose, an entity may elect to reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply paragraph 113G as required by paragraph 113M. This election is made separately for each hedging relationship (i.e., on an individual hedging relationship basis).

Cash Flow Hedges

113W. For the purpose of applying paragraph 108, at the point when an entity amends the description of a hedged item as required in paragraph 113P(b), the cumulative gain or loss in net assets/equity shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

113X. For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 112(c) in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in net assets/equity for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of Items

113Y. When an entity applies paragraph 113P to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 113P, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

113Z. An entity shall assess separately whether each subgroup meets the requirements in paragraphs 87 and 93 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraphs 87 and 93, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 99 or 107 to account for ineffectiveness related to the hedging relationship in its entirety.

Designating Financial Items as Hedged Items

113ZA. An alternative benchmark rate designated as a non-contractually specified risk portion that is not separately identifiable (see paragraphs 90 and AG139) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk portion for the first time (i.e., the 24-month period applies on a rate-by-rate basis).

113ZB. If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk portion for the first time, the entity shall cease applying the requirement in paragraph 113ZA to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a non-contractually specified risk portion.

113ZC. In addition to those hedging relationships specified in paragraph 113P, an entity shall apply the requirements in paragraphs 113ZA and 113ZB to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk portion (see paragraphs 90 and AG139) when, because of interest rate benchmark reform, that risk portion is not separately identifiable at the date it is designated.

Transition

114. [Deleted]

115. [Deleted]

116. [Deleted]

117. [Deleted]

118. [Deleted]

119. [Deleted]

120. [Deleted]

121. [Deleted]

122. [Deleted]

123. [Deleted]

Effective Date and Transition

124. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2013, it shall disclose that fact.**

125. **An entity shall not apply this Standard before January 1, 2013, unless it also applies IPSAS 28 and IPSAS 30.**

125A. **Paragraph 2 was amended by IPSAS 32, *Service Concession Arrange-ments*: *Grantor* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 6 and 42A of IPSAS 5, the amendments to paragraphs 5, 7 and 107C of IPSAS 17 and the amendments to paragraphs 6 and 132A of IPSAS 31.**

125B. **Paragraphs 114, 115, 116, 117, 118, 119, 120, 121, 122, 124 and 126 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

125C. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 2(a), 17, 89, AG2, AG14, AG51–53 and C2. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

125D. **Paragraph AG8 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

125E. **Paragraphs 7 and 8 were deleted by *The Applicability of IPSAS,* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

125F. **Paragraph 2 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

125G. **Paragraphs 2, AG35, AG131 and B4 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

125H. **Paragraphs 2, 9, 10, 80, 98, 99, 101, 102, 107, 108, 109, 111, 112, 113, AG128, AG157 and AG161 were amended, paragraph AG156A was added and paragraphs 1, 3, 4, 5, 6, 11–79, 88, AG1–AG126 and AG129 were deleted by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

125I. **Paragraphs 113A–113N were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognized in net assets/equity that existed at the beginning of the reporting period in which an entity first applies these amendments.**

125J. **Paragraphs 113O–113ZC, 125K–125M were added by *Improvements to IPSAS, 2021,* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, except as specified in paragraphs 125K–125M.**

125K. An entity shall designate a new hedging relationship (for example, as described in paragraph 113ZC) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:

(a) The entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and

(b) At the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

125L. If, in applying paragraph 125K, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 113ZA and 113ZB to the date the alternative benchmark rate is designated as a non-contractually specified risk portion for the first time as referring to the date of initial application of these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk portion begins from the date of initial application of these amendments).

125M. An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening net assets/equity (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

126. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 29.

Scope (paragraphs 2–8)

AG1–AG126. [Deleted]

Hedging (paragraphs 80–113)

Hedging Instruments (paragraphs 81–86)

Qualifying Instruments (paragraphs 81 and 82)

AG127. The potential loss on an option that an entity writes could be significantly greater than the potential gain in value of a related hedged item. In other words, a written option is not effective in reducing the surplus or deficit exposure of a hedged item. Therefore, a written option does not qualify as a hedging instrument unless it is designated as an offset to a purchased option, including one that is embedded in another financial instrument (e.g., a written call option used to hedge a callable liability). In contrast, a purchased option has potential gains equal to or greater than losses and therefore has the potential to reduce surplus or deficit exposure from changes in fair values or cash flows. Accordingly, it can qualify as a hedging instrument.

AG128. A financial asset measured at amortized cost may be designated as a hedging instrument in a hedge of foreign currency risk.

AG129. [Deleted]

AG130. An entity's own equity instruments are not financial assets or financial liabilities of the entity and therefore cannot be designated as hedging instruments.

Hedged items (paragraphs 87–94)

Qualifying items (paragraphs 87–89)

AG131. A firm commitment to acquire an entity or an integrated set of activities in a public sector combination cannot be a hedged item, except for foreign exchange risk, because the other risks being hedged cannot be specifically identified and measured. These other risks are general operational risks.

AG132. An equity method investment cannot be a hedged item in a fair value hedge because the equity method recognizes in surplus or deficit the investor's share of the associate's surplus or deficit, rather than changes in the investment's fair value. For a similar reason, an investment in a consolidated controlled entity cannot be a hedged item in a fair value hedge because consolidation recognizes in surplus or deficit the controlled entity's surplus or deficit, rather than changes in the investment's fair value. A hedge of a net investment in a foreign operation is different because it is a hedge of the foreign currency exposure, not a fair value hedge of the change in the value of the investment.

AG133. Paragraph 89 states that in consolidated financial statements the foreign currency risk of a highly probable forecast transaction within the economic entity may qualify as a hedged item in a cash flow hedge, provided the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated surplus or deficit. For this purpose an entity can be a controlling entity, controlled entity, associate, joint venture or branch. If the foreign currency risk of a forecast transaction within the economic entity does not affect consolidated surplus or deficit, the transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same economic entity unless there is a related external transaction. However, when the foreign currency risk of a forecast transaction within the economic entity will affect consolidated surplus or deficit, the transaction can qualify as a hedged item. An example is forecast sales or purchases of inventories between members of the same economic entity if there is an onward sale of the inventory to a party external to the economic entity. Similarly, a forecast sale of property, plant and equipment within the economic entity from the entity that constructed it to the entity that will use the property, plant and equipment in its operations may affect consolidated surplus or deficit. This could occur, for example, because the plant and equipment will be depreciated by the purchasing entity and the amount initially recognized for the plant and equipment may change if the forecast transaction within the economic entity is denominated in a currency other than the functional currency of the purchasing entity.

AG134. If a hedge of a forecast transaction within the economic entity qualifies for hedge accounting, any gain or loss that is recognized directly in net assets/equity in accordance with paragraph 106(a) shall be reclassified into surplus or deficit as a reclassification adjustment in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated surplus or deficit.

AG135. An entity can designate all changes in the cash flows or fair value of a hedged item in a hedging relationship. An entity can also designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk). The intrinsic value of a purchased option hedging instrument (assuming that it has the same principal terms as the designated risk), but not its time value, reflects a one-sided risk in a hedged item. For example, an entity can designate the variability of future cash flow outcomes resulting from a price increase of a forecast commodity purchase. In such a situation, only cash flow losses that result from an increase in the price above the specified level are designated. The hedged risk does not include the time value of a purchased option because the time value is not a component of the forecast transaction that affects surplus or deficit (paragraph 96(b)).

Designation of Financial Items as Hedged Items (paragraphs 90 and 91)

AG136. If a portion of the cash flows of a financial asset or financial liability is designated as the hedged item, that designated portion must be less than the total cash flows of the asset or liability. For example, in the case of a liability whose effective interest rate is below a market related interest rate, an entity cannot designate (a) a portion of the liability equal to the principal amount plus interest at a market related rate and (b) a negative residual portion. However, the entity may designate all of the cash flows of the entire financial asset or financial liability as the hedged item and hedge them for only one particular risk (e.g., only for changes that are attributable to changes in the market rate). For example, in the case of a financial liability whose effective interest rate is 100 basis points below the market rate, an entity can designate as the hedged item the entire liability (i.e., principal plus interest at the market rate minus 100 basis points) and hedge the change in the fair value or cash flows of that entire liability that is attributable to changes in the market rate. The entity may also choose a hedge ratio of other than one to one in order to improve the effectiveness of the hedge as described in paragraph AG140.

AG137. In addition, if a fixed rate financial instrument is hedged some time after its origination and interest rates have changed in the meantime, the entity can designate a portion equal to a benchmark rate that is higher than the contractual rate paid on the item. The entity can do so provided that the benchmark rate is less than the effective interest rate calculated on the assumption that the entity had purchased the instrument on the day it first designates the hedged item. For example, assume an entity originates a fixed rate financial asset of CU100 that has an effective interest rate of 6 percent at a time when the market rate is 4 percent. It begins to hedge that asset some time later when the market rate has increased to 8 percent and the fair value of the asset has decreased to CU90. The entity calculates that if it had purchased the asset on the date it first designates it as the hedged item for its then fair value of CU90, the effective yield would have been 9.5 percent. Because the market rate is less than this effective yield, the entity can designate a portion of the market rate of 8 percent that consists partly of the contractual interest cash flows and partly of the difference between the current fair value (i.e., CU90) and the amount repayable on maturity (i.e., CU100).

AG138. Paragraph 90 permits an entity to designate something other than the entire fair value change or cash flow variability of a financial instrument. For example:

(a) All of the cash flows of a financial instrument may be designated for cash flow or fair value changes attributable to some (but not all) risks; or

(b) Some (but not all) of the cash flows of a financial instrument may be designated for cash flow or fair value changes attributable to all or only some risks (i.e., a "portion" of the cash flows of the financial instrument may be designated for changes attributable to all or only some risks).

AG139. To be eligible for hedge accounting, the designated risks and portions must be separately identifiable components of the financial instrument, and changes in the cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable. For example:

(a) For a fixed rate financial instrument hedged for changes in fair value attributable to changes in a risk-free or benchmark interest rate, the risk-free or benchmark rate is normally regarded as both a separately identifiable component of the financial instrument and reliably measurable.

(b) Inflation is not separately identifiable and reliably measurable and cannot be designated as a risk or a portion of a financial instrument unless the requirements in (c) are met.

(c) A contractually specified inflation portion of the cash flows of a recognized inflation-linked bond (assuming there is no requirement to account for an embedded derivative separately) is separately identifiable and reliably measurable as long as other cash flows of the instrument are not affected by the inflation portion.

Designation of Non-Financial Items as Hedged Items (paragraph 92)

AG140. Changes in the price of an ingredient or component of a non-financial asset or non-financial liability generally do not have a predictable, separately measurable effect on the price of the item that is comparable to the effect of, say, a change in market interest rates on the price of a bond. Thus, a non-financial asset or non-financial liability is a hedged item only in its entirety or for foreign exchange risk. If there is a difference between the terms of the hedging instrument and the hedged item (such as for a hedge of the forecast purchase of Brent Crude oil using a forward contract to purchase Light Sweet Crude oil on otherwise similar terms), the hedging relationship nonetheless can qualify as a hedge relationship provided all the conditions in paragraph 98 are met, including that the hedge is expected to be highly effective. For this purpose, the amount of the hedging instrument may be greater or less than that of the hedged item if this improves the effectiveness of the hedging relationship. For example, a regression analysis could be performed to establish a statistical relationship between the hedged item (e.g., a transaction in Brent Crude oil) and the hedging instrument (e.g., a transaction in Light Sweet Crude oil). If there is a valid statistical relationship between the two variables (i.e., between the unit prices of Brent Crude oil and Light Sweet Crude oil), the slope of the regression line can be used to establish the hedge ratio that will maximize expected effectiveness. For example, if the slope of the regression line is 1.02, a hedge ratio based on 0.98 quantities of hedged items to 1.00 quantities of the hedging instrument maximizes expected effectiveness. However, the hedging relationship may result in ineffectiveness that is recognized in surplus or deficit during the term of the hedging relationship.

Designation of Groups of Items as Hedged Items (paragraphs 93 and 94)

AG141. A hedge of an overall net position (e.g., the net of all fixed rate assets and fixed rate liabilities with similar maturities), rather than of a specific hedged item, does not qualify for hedge accounting. However, almost the same effect on surplus or deficit of hedge accounting for this type of hedging relationship can be achieved by designating as the hedged item part of the underlying items. For example, if a bank has CU100 of assets and CU90 of liabilities with risks and terms of a similar nature and hedges the net CU10 exposure, it can designate as the hedged item CU10 of those assets. This designation can be used if such assets and liabilities are fixed rate instruments, in which case it is a fair value hedge, or if they are variable rate instruments, in which case it is a cash flow hedge. Similarly, if an entity has a firm commitment to make a purchase in a foreign currency of CU100 and a firm commitment to make a sale in the foreign currency of CU90, it can hedge the net amount of CU10 by acquiring a derivative and designating it as a hedging instrument associated with CU10 of the firm purchase commitment of CU100.

Hedge Accounting (paragraphs 95–113)

AG142. An example of a fair value hedge is a hedge of exposure to changes in the fair value of a fixed rate debt instrument as a result of changes in interest rates. Such a hedge could be entered into by the issuer or by the holder.

AG143. An example of a cash flow hedge is the use of a swap to change floating rate debt to fixed rate debt (i.e., a hedge of a future transaction where the future cash flows being hedged are the future interest payments).

AG144. A hedge of a firm commitment (e.g., a hedge of the change in fuel price relating to an unrecognized contractual commitment by an electric utility to purchase fuel at a fixed price) is a hedge of an exposure to a change in fair value. Accordingly, such a hedge is a fair value hedge. However, under paragraph 97 a hedge of the foreign currency risk of a firm commitment could alternatively be accounted for as a cash flow hedge.

Assessing Hedge Effectiveness

AG145. A hedge is regarded as highly effective only if both of the following conditions are met:

(a) At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Such an expectation can be demonstrated in various ways, including a comparison of past changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk with past changes in the fair value or cash flows of the hedging instrument, or by demonstrating a high statistical correlation between the fair value or cash flows of the hedged item and those of the hedging instrument. The entity may choose a hedge ratio of other than one to one in order to improve the effectiveness of the hedge as described in paragraph AG140.

(b) The actual results of the hedge are within a range of 80–125 percent. For example, if actual results are such that the loss on the hedging instrument is CU120 and the gain on the cash instrument is CU100, offset can be measured by 120/100, which is 120 percent, or by 100/120, which is 83 percent. In this example, assuming the hedge meets the condition in (a), the entity would conclude that the hedge has been highly effective.

AG146. Effectiveness is assessed, at a minimum, at the time an entity prepares its annual financial statements.

AG147. This Standard does not specify a single method for assessing hedge effectiveness. The method an entity adopts for assessing hedge effectiveness depends on its risk management strategy. For example, if the entity's risk management strategy is to adjust the amount of the hedging instrument periodically to reflect changes in the hedged position, the entity needs to demonstrate that the hedge is expected to be highly effective only for the period until the amount of the hedging instrument is next adjusted. In some cases, an entity adopts different methods for different types of hedges. An entity's documentation of its hedging strategy includes its procedures for assessing effectiveness. Those procedures state whether the assessment includes all of the gain or loss on a hedging instrument or whether the instrument's time value is excluded.

AG148. If an entity hedges less than 100 percent of the exposure on an item, such as 85 percent, it shall designate the hedged item as being 85 percent of the exposure and shall measure ineffectiveness based on the change in that designated 85 percent exposure. However, when hedging the designated 85 percent exposure, the entity may use a hedge ratio of other than one to one if that improves the expected effectiveness of the hedge, as explained in paragraph AG140.

AG149. If the principal terms of the hedging instrument and of the hedged asset, liability, firm commitment or highly probable forecast transaction are the same, the changes in fair value and cash flows attributable to the risk being hedged may be likely to offset each other fully, both when the hedge is entered into and afterwards. For example, an interest rate swap is likely to be an effective hedge if the notional and principal amounts, term, repricing dates, dates of interest and principal receipts and payments, and basis for measuring interest rates are the same for the hedging instrument and the hedged item. In addition, a hedge of a highly probable forecast purchase of a commodity with a forward contract is likely to be highly effective if:

(a) The forward contract is for the purchase of the same quantity of the same commodity at the same time and location as the hedged forecast purchase;

(b) The fair value of the forward contract at inception is zero; and

(c) Either the change in the discount or premium on the forward contract is excluded from the assessment of effectiveness and recognized in surplus or deficit or the change in expected cash flows on the highly probable forecast transaction is based on the forward price for the commodity.

AG150. Sometimes the hedging instrument offsets only part of the hedged risk. For example, a hedge would not be fully effective if the hedging instrument and hedged item are denominated in different currencies that do not move in tandem. Also, a hedge of interest rate risk using a derivative would not be fully effective if part of the change in the fair value of the derivative is attributable to the counterparty's credit risk.

AG151. To qualify for hedge accounting, the hedge must relate to a specific identified and designated risk, and not merely to the entity's general operational risks, and must ultimately affect the entity's surplus or deficit. A hedge of the risk of obsolescence of a physical asset or the risk of legislative changes relating to the rehabilitation of damage to the environment is not eligible for hedge accounting; effectiveness cannot be measured because those risks are not measurable reliably.

AG152. Paragraph 83(a) permits an entity to separate the intrinsic value and time value of an option contract and designate as the hedging instrument only the change in the intrinsic value of the option contract. Such a designation may result in a hedging relationship that is perfectly effective in achieving offsetting changes in cash flows attributable to a hedged one-sided risk of a forecast transaction, if the principal terms of the forecast transaction and hedging instrument are the same.

AG153. If an entity designates a purchased option in its entirety as the hedging instrument of a one-sided risk arising from a forecast transaction, the hedging relationship will not be perfectly effective. This is because the premium paid for the option includes time value and, as stated in paragraph AG135, a designated one-sided risk does not include the time value of an option. Therefore, in this situation, there will be no offset between the cash flows relating to the time value of the option premium paid and the designated hedged risk.

AG154. In the case of interest rate risk, hedge effectiveness may be assessed by preparing a maturity schedule for financial assets and financial liabilities that shows the net interest rate exposure for each time period, provided that the net exposure is associated with a specific asset or liability (or a specific group of assets or liabilities or a specific portion of them) giving rise to the net exposure, and hedge effectiveness is assessed against that asset or liability.

AG155. In assessing the effectiveness of a hedge, an entity generally considers the time value of money. The fixed interest rate on a hedged item need not exactly match the fixed interest rate on a swap designated as a fair value hedge. Nor does the variable interest rate on an interest-bearing asset or liability need to be the same as the variable interest rate on a swap designated as a cash flow hedge. A swap's fair value derives from its net settlements. The fixed and variable rates on a swap can be changed without affecting the net settlement if both are changed by the same amount.

AG156. If an entity does not meet hedge effectiveness criteria, the entity discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. However, if the entity identifies the event or change in circumstances that caused the hedging relationship to fail the effectiveness criteria, and demonstrates that the hedge was effective before the event or change in circumstances occurred, the entity discontinues hedge accounting from the date of the event or change in circumstances.

AG156A. For the avoidance of doubt, the effects of replacing the original counterparty with a clearing counterparty and making the associated changes as described in paragraphs 102(a)(ii) and 112(a)(ii) shall be reflected in the measurement of the hedging instrument and therefore in the assessment of hedge effectiveness and the measurement of hedge effectiveness.

Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk

AG157. For a fair value hedge of interest rate risk associated with a portfolio of financial assets or financial liabilities, an entity would meet the requirements of this Standard if it complies with the procedures set out in (a)–(i) and paragraphs AG158–AG175 below.

(a) As part of its risk management process the entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may comprise only assets, only liabilities or both assets and liabilities. The entity may identify two or more portfolios, in which case it applies the guidance below to each portfolio separately.

(b) The entity analyses the portfolio into repricing time periods based on expected, rather than contractual, repricing dates. The analysis into repricing time periods may be performed in various ways including scheduling cash flows into the periods in which they are expected to occur, or scheduling notional principal amounts into all periods until repricing is expected to occur.

(c) On the basis of this analysis, the entity decides the amount it wishes to hedge. The entity designates as the hedged item an amount of assets or liabilities (but not a net amount) from the identified portfolio equal to the amount it wishes to designate as being hedged. This amount also determines the percentage measure that is used for testing effectiveness in accordance with paragraph AG169(b).

(d) The entity designates the interest rate risk it is hedging. This risk could be a portion of the interest rate risk in each of the items in the hedged position, such as a benchmark interest rate (e.g., a swap rate).

(e) The entity designates one or more hedging instruments for each repricing time period.

(f) Using the designations made in (c)–(e) above, the entity assesses at inception and in subsequent periods, whether the hedge is expected to be highly effective during the period for which the hedge is designated.

(g) Periodically, the entity measures the change in the fair value of the hedged item (as designated in (c)) that is attributable to the hedged risk (as designated in (d)), on the basis of the expected repricing dates determined in (b). Provided that the hedge is determined actually to have been highly effective when assessed using the entity's documented method of assessing effectiveness, the entity recognizes the change in fair value of the hedged item as a gain or loss in surplus or deficit and in one of two line items in the statement of financial position as described in paragraph 100. The change in fair value need not be allocated to individual assets or liabilities.

(h) The entity measures the change in fair value of the hedging instrument(s) (as designated in (e)) and recognizes it as a gain or loss in surplus or deficit. The fair value of the hedging instrument(s) is recognized as an asset or liability in the statement of financial position.

(i) Any ineffectiveness will be recognized in surplus or deficit as the difference between the change in fair value referred to in (g) and that referred to in (h) (effectiveness is measured using the same materiality considerations as in other IPSAS).

AG158. This approach is described in more detail below. The approach shall be applied only to a fair value hedge of the interest rate risk associated with a portfolio of financial assets or financial liabilities.

AG159. The portfolio identified in paragraph AG157(a) could contain assets and liabilities. Alternatively, it could be a portfolio containing only assets, or only liabilities. The portfolio is used to determine the amount of the assets or liabilities the entity wishes to hedge. However, the portfolio is not itself designated as the hedged item.

AG160. In applying paragraph AG157(b), the entity determines the expected repricing date of an item as the earlier of the dates when that item is expected to mature or to reprice to market rates. The expected repricing dates are estimated at the inception of the hedge and throughout the term of the hedge, based on historical experience and other available information, including information and expectations regarding prepayment rates, interest rates and the interaction between them. Entities that have no entity-specific experience or insufficient experience use peer group experience for comparable financial instruments. These estimates are reviewed periodically and updated in the light of experience. In the case of a fixed rate item that is prepayable, the expected repricing date is the date on which the item is expected to prepay unless it reprices to market rates on an earlier date. For a group of similar items, the analysis into time periods based on expected repricing dates may take the form of allocating a percentage of the group, rather than individual items, to each time period. An entity may apply other methodologies for such allocation purposes. For example, it may use a prepayment rate multiplier for allocating amortizing loans to time periods based on expected repricing dates. However, the methodology for such an allocation shall be in accordance with the entity's risk management procedures and objectives.

AG161. As an example of the designation set out in paragraph AG157(c), if in a particular repricing time period an entity estimates that it has fixed rate assets of CU100 and fixed rate liabilities of CU80 and decides to hedge all of the net position of CU20, it designates as the hedged item assets in the amount of CU20 (a portion of the assets is designated as the Standard permits an entity to designate any amount of the available qualifying assets or liabilities, i.e., in this example any amount of the assets between CU0 and CU100). The designation is expressed as an "amount of a currency" (e.g., an amount of dollars, euro, pounds or rand) rather than as individual assets. It follows that all of the assets (or liabilities) from which the hedged amount is drawn – i.e., all of the CU100 of assets in the above example – must be:

(a) Items whose fair value changes in response to changes in the interest rate being hedged; and

(b) Items that could have qualified for fair value hedge accounting if they had been designated as hedged individually. In particular, because IPSAS 41 specifies that the fair value of a financial liability with a demand feature (such as demand deposits and some types of time deposits) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid, such an item cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the holder can demand payment. In the above example, the hedged position is an amount of assets. Hence, such liabilities are not a part of the designated hedged item, but are used by the entity to determine the amount of the asset that is designated as being hedged. If the position the entity wished to hedge was an amount of liabilities, the amount representing the designated hedged item must be drawn from fixed rate liabilities other than liabilities that the entity can be required to repay in an earlier time period, and the percentage measure used for assessing hedge effectiveness in accordance with paragraph AG169(b) would be calculated as a percentage of these other liabilities. For example, assume that an entity estimates that in a particular repricing time period it has fixed rate liabilities of CU100, comprising CU40 of demand deposits and CU60 of liabilities with no demand feature, and CU70 of fixed rate assets. If the entity decides to hedge all of the net position of CU30, it designates as the hedged item liabilities of CU30 or 50 percent (CU30 / (CU100 - CU40) = 50 percent) of the liabilities with no demand feature.

AG162. The entity also complies with the other designation and documentation requirements set out in paragraph 98(a). For a portfolio hedge of interest rate risk, this designation and documentation specifies the entity's policy for all of the variables that are used to identify the amount that is hedged and how effectiveness is measured, including the following:

(a) Which assets and liabilities are to be included in the portfolio hedge and the basis to be used for removing them from the portfolio.

(b) How the entity estimates repricing dates, including what interest rate assumptions underlie estimates of prepayment rates and the basis for changing those estimates. The same method is used for both the initial estimates made at the time an asset or liability is included in the hedged portfolio and for any later revisions to those estimates.

(c) The number and duration of repricing time periods.

(d) How often the entity will test effectiveness and which of the two methods in paragraph AG169 it will use.

(e) The methodology used by the entity to determine the amount of assets or liabilities that are designated as the hedged item and, accordingly, the percentage measure used when the entity tests effectiveness using the method described in paragraph AG169(b).

(f) When the entity tests effectiveness using the method described in paragraph AG169(b), whether the entity will test effectiveness for each repricing time period individually, for all time periods in aggregate, or by using some combination of the two.

The policies specified in designating and documenting the hedging relationship shall be in accordance with the entity's risk management procedures and objectives. Changes in policies shall not be made arbitrarily. They shall be justified on the basis of changes in market conditions and other factors and be founded on and consistent with the entity's risk management procedures and objectives.

AG163. The hedging instrument referred to in paragraph AG157(e) may be a single derivative or a portfolio of derivatives all of which contain exposure to the hedged interest rate risk designated in paragraph AG157(d). Such a portfolio of derivatives may contain offsetting risk positions. However, it may not include written options or net written options, because paragraph 86 of the Standard and paragraph AG127 do not permit such options to be designated as hedging instruments (except when a written option is designated as an offset to a purchased option). If the hedging instrument hedges the amount designated in paragraph AG157(c) for more than one repricing time period, it is allocated to all of the time periods that it hedges. However, the whole of the hedging instrument must be allocated to those repricing time periods because paragraph 84 of the Standard does not permit a hedging relationship to be designated for only a portion of the time period during which a hedging instrument remains outstanding.

AG164. When the entity measures the change in the fair value of a prepayable item in accordance with paragraph AG157(g), a change in interest rates affects the fair value of the prepayable item in two ways: it affects the fair value of the contractual cash flows and the fair value of the prepayment option that is contained in a prepayable item. Paragraph 90 of the Standard permits an entity to designate a portion of a financial asset or financial liability, sharing a common risk exposure, as the hedged item, provided effectiveness can be measured. For prepayable items, paragraph 91 permits this to be achieved by designating the hedged item in terms of the change in the fair value that is attributable to changes in the designated interest rate on the basis of expected, rather than contractual, repricing dates. However, the effect that changes in the hedged interest rate have on those expected repricing dates shall be included when determining the change in the fair value of the hedged item. Consequently, if the expected repricing dates are revised (e.g., to reflect a change in expected prepayments), or if actual repricing dates differ from those expected, ineffectiveness will arise as described in paragraph AG169. Conversely, changes in expected repricing dates that (a) clearly arise from factors other than changes in the hedged interest rate, (b) are uncorrelated with changes in the hedged interest rate, and (c) can be reliably separated from changes that are attributable to the hedged interest rate (e.g., changes in prepayment rates clearly arising from a change in demographic factors or tax regulations rather than changes in interest rate) are excluded when determining the change in the fair value of the hedged item, because they are not attributable to the hedged risk. If there is uncertainty about the factor that gave rise to the change in expected repricing dates or the entity is not able to separate reliably the changes that arise from the hedged interest rate from those that arise from other factors, the change is assumed to arise from changes in the hedged interest rate.

AG165. Standard does not specify the techniques used to determine the amount referred to in paragraph AG157(g), namely the change in the fair value of the hedged item that is attributable to the hedged risk. If statistical or other estimation techniques are used for such measurement, management must expect the result to approximate closely that which would have been obtained from measurement of all the individual assets or liabilities that constitute the hedged item. It is not appropriate to assume that changes in the fair value of the hedged item equal changes in the value of the hedging instrument.

AG166. Paragraph 100 requires that if the hedged item for a particular repricing time period is an asset, the change in its value is presented in a separate line item within assets. Conversely, if the hedged item for a particular repricing time period is a liability, the change in its value is presented in a separate line item within liabilities. These are the separate line items referred to in paragraph AG157(g). Specific allocation to individual assets (or liabilities) is not required.

AG167. Paragraph AG157(i) notes that ineffectiveness arises to the extent that the change in the fair value of the hedged item that is attributable to the hedged risk differs from the change in the fair value of the hedging derivative. Such a difference may arise for a number of reasons, including:

(a) Actual repricing dates being different from those expected, or expected repricing dates being revised;

(b) Items in the hedged portfolio becoming impaired or being derecognized;

(c) The payment dates of the hedging instrument and the hedged item being different; and

(d) Other causes (e.g., when a few of the hedged items bear interest at a rate below the benchmark rate for which they are designated as being hedged, and the resulting ineffectiveness is not so great that the portfolio as a whole fails to qualify for hedge accounting).

Such ineffectiveness (applying the same materiality considerations in other IPSAS) shall be identified and recognized in surplus or deficit.

AG168. Generally, the effectiveness of the hedge will be improved:

(a) If the entity schedules items with different prepayment characteristics in a way that takes account of the differences in prepayment behavior.

(b) When the number of items in the portfolio is larger. When only a few items are contained in the portfolio, relatively high ineffectiveness is likely if one of the items prepays earlier or later than expected. Conversely, when the portfolio contains many items, the prepayment behavior can be predicted more accurately.

(c) When the repricing time periods used are narrower (e.g., 1-month as opposed to 3-month repricing time periods). Narrower repricing time periods reduce the effect of any mismatch between the repricing and payment dates (within the repricing time period) of the hedged item and those of the hedging instrument.

(d) The greater the frequency with which the amount of the hedging instrument is adjusted to reflect changes in the hedged item (e.g., because of changes in prepayment expectations).

AG169. An entity tests effectiveness periodically. If estimates of repricing dates change between one date on which an entity assesses effectiveness and the next, it shall calculate the amount of effectiveness either:

(a) As the difference between the change in the fair value of the hedging instrument (see paragraph AG157(h)) and the change in the value of the entire hedged item that is attributable to changes in the hedged interest rate (including the effect that changes in the hedged interest rate have on the fair value of any embedded prepayment option); or

(b) Using the following approximation. The entity:

(i) Calculates the percentage of the assets (or liabilities) in each repricing time period that was hedged, on the basis of the estimated repricing dates at the last date it tested effectiveness.

(ii) Applies this percentage to its revised estimate of the amount in that repricing time period to calculate the amount of the hedged item based on its revised estimate.

(iii) Calculates the change in the fair value of its revised estimate of the hedged item that is attributable to the hedged risk and presents it as set out in paragraph AG157(g).

(iv) Recognizes ineffectiveness equal to the difference between the amount determined in (iii) and the change in the fair value of the hedging instrument (see paragraph AG157(h)).

AG170. When measuring effectiveness, the entity distinguishes revisions to the estimated repricing dates of existing assets (or liabilities) from the origination of new assets (or liabilities), with only the former giving rise to ineffectiveness. All revisions to estimated repricing dates (other than those excluded in accordance with paragraph AG164), including any reallocation of existing items between time periods, are included when revising the estimated amount in a time period in accordance with paragraph AG169(b)(ii) and hence when measuring effectiveness. Once ineffectiveness has been recognized as set out above, the entity establishes a new estimate of the total assets (or liabilities) in each repricing time period, including new assets (or liabilities) that have been originated since it last tested effectiveness, and designates a new amount as the hedged item and a new percentage as the hedged percentage. The procedures set out in paragraph AG169(b) are then repeated at the next date it tests effectiveness.

AG171. Items that were originally scheduled into a repricing time period may be derecognized because of earlier than expected prepayment or write-offs caused by impairment or sale. When this occurs, the amount of change in fair value included in the separate line item referred to in paragraph AG157(g) that relates to the derecognized item shall be removed from the statement of financial position, and included in the gain or loss that arises on derecognition of the item. For this purpose, it is necessary to know the repricing time period(s) into which the derecognized item was scheduled, because this determines the repricing time period(s) from which to remove it and hence the amount to remove from the separate line item referred to in paragraph AG157(g). When an item is derecognized, if it can be determined in which time period it was included, it is removed from that time period. If not, it is removed from the earliest time period if the derecognition resulted from higher than expected prepayments, or allocated to all time periods containing the derecognized item on a systematic and rational basis if the item was sold or became impaired.

AG172. In addition, any amount relating to a particular time period that has not been derecognized when the time period expires is recognized in surplus or deficit at that time (see paragraph 100). For example, assume an entity schedules items into three repricing time periods. At the previous redesignation, the change in fair value reported in the single line item in the statement of financial position was an asset of CU25. That amount represents amounts attributable to periods 1, 2 and 3 of CU7, CU8 and CU10, respectively. At the next redesignation, the assets attributable to period 1 have been either realized or rescheduled into other periods. Therefore, CU7 is derecognized from the statement of financial position and recognized in surplus or deficit. CU8 and CU10 are now attributable to periods 1 and 2, respectively. These remaining periods are then adjusted, as necessary, for changes in fair value as described in paragraph AG157(g).

AG173. As an illustration of the requirements of the previous two paragraphs, assume that an entity scheduled assets by allocating a percentage of the portfolio into each repricing time period. Assume also that it scheduled CU100 into each of the first two time periods. When the first repricing time period expires, CU110 of assets are derecognized because of expected and unexpected repayments. In this case, all of the amount contained in the separate line item referred to in paragraph AG157(g) that relates to the first time period is removed from the statement of financial position, plus 10 percent of the amount that relates to the second time period.

AG174. If the hedged amount for a repricing time period is reduced without the related assets (or liabilities) being derecognized, the amount included in the separate line item referred to in paragraph AG157(g) that relates to the reduction shall be amortized in accordance with paragraph 104.

AG175. An entity may wish to apply the approach set out in paragraphs AG157–AG174 to a portfolio hedge that had previously been accounted for as a cash flow hedge in accordance with IPSAS 29. Such an entity would revoke the previous designation of a cash flow hedge in accordance with paragraph 112(d), and apply the requirements set out in that paragraph. It would also redesignate the hedge as a fair value hedge and apply the approach set out in paragraphs AG157–AG174 prospectively to subsequent accounting periods.

Appendix B

Reassessment of Embedded Derivatives

B1–B7. [Deleted]

Appendix C

Hedges of a Net Investment in a Foreign Operation

This Appendix is an integral part of IPSAS 29.

Introduction

C1. Many reporting entities have investments in foreign operations (as defined in IPSAS 4, paragraph 10). Such foreign operations may be controlled entities, associates, joint ventures or branches. IPSAS 4 requires an entity to determine the functional currency of each of its foreign operations as the currency of the primary economic environment of that operation. When translating the results and financial position of a foreign operation into a presentation currency, the entity is required to recognize foreign exchange differences directly in net assets/equity until it disposes of the foreign operation.

C2. Hedge accounting of the foreign currency risk arising from a net investment in a foreign operation will apply only when the net assets of that foreign operation are included in the financial statements. This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint venters are accounted for using the equity method and financial statements that include a branch or joint operations as defined in IPSAS 37. The item being hedged with respect to the foreign currency risk arising from the net investment in a foreign operation may be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation.

C3. IPSAS 29 requires the designation of an eligible hedged item and eligible hedging instruments in a hedge accounting relationship. If there is a designated hedging relationship, in the case of a net investment hedge, the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment is recognized directly in net assets/equity and is included with the foreign exchange differences arising on translation of the results and financial position of the foreign operation.

C4. This appendix applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IPSAS 29. It should not be applied by analogy to other types of hedge accounting. This appendix refers to such an entity as a controlling entity and to the financial statements in which the net assets of foreign operations are included as consolidated financial statements. All references to a controlling entity apply equally to an entity that has a net investment in a foreign operation that is a joint venture, an associate or a branch.

C5. This appendix provides guidance on:

(a) Identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation, given that an entity with many foreign operations may be exposed to a number of foreign currency risks. It specifically addresses:

(i) Whether the controlling entity may designate as a hedged risk only the foreign exchange differences arising from a difference between the functional currencies of the controlling entity and its foreign operation, or whether it may also designate as the hedged risk the foreign exchange differences arising from the difference between the presentation currency of the controlling entity's consolidated financial statements and the functional currency of the foreign operation; and

(ii) If the controlling entity holds the foreign operation indirectly, whether the hedged risk may include only the foreign exchange differences arising from differences in functional currencies between the foreign operation and its immediate controlling entity, or whether the hedged risk may also include any foreign exchange differences between the functional currency of the foreign operation and any intermediate or ultimate controlling entity (i.e., whether the fact that the net investment in the foreign operation is held through an intermediate controlling entity affects the economic risk to the ultimate controlling entity).

(b) Where in an economic entity the hedging instrument can be held. It specifically addresses:

(i) IPSAS 29 allows an entity to designate either a derivative or a non-derivative financial instrument (or a combination of derivative and non-derivative financial instruments) as hedging instruments for foreign currency risk. This appendix addresses whether the nature of the hedging instrument (derivative or non-derivative) or the method of consolidation affects the assessment of hedge effectiveness.

(ii) This appendix also addresses where, within an economic entity, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting i.e., whether a qualifying hedge accounting relationship can be established only if the entity hedging its net investment is a party to the hedging instrument or whether any entity within the economic entity, regardless of its functional currency, can hold the hedging instrument.

(c) How an entity should determine what amount of the gain or loss recognized in net assets/equity should be recognized directly in surplus or deficit for both the hedging instrument and the hedged item as IPSAS 4 and IPSAS 29 require cumulative amounts recognized directly in net assets/equity relating to both the foreign exchange differences arising on translation of the results and financial position of the foreign operation and the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment to be recognized directly when the controlling entity disposes of the foreign operation. It specifically addresses:

(i) When a foreign operation that was hedged is disposed of, what amounts from the controlling entity's foreign currency translation reserve in respect of the hedging instrument and of that foreign operation should be recognized in surplus or deficit in the controlling entity's consolidated financial statements; and

(ii) Whether the method of consolidation affects the determination of the amounts to be recognized in surplus or deficit.

Application of IPSAS 29 to Hedges of a Net Investment in a Foreign Operation

Nature of the Hedged Risk and Amount of the Hedged Item for which a Hedging Relationship may be Designated

C6. Hedge accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the controlling entity's functional currency.

C7. In a hedge of the foreign currency risks arising from a net investment in a foreign operation, the hedged item can be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation in the consolidated financial statements of the controlling entity. The carrying amount of the net assets of a foreign operation that may be designated as the hedged item in the consolidated financial statements of a controlling entity depends on whether any lower level controlling entity of the foreign operation has applied hedge accounting for all or part of the net assets of that foreign operation and that accounting has been maintained in the controlling entity's consolidated financial statements.

C8. The hedged risk may be designated as the foreign currency exposure arising between the functional currency of the foreign operation and the functional currency of any controlling entity (the immediate, intermediate or ultimate controlling entity) of that foreign operation. The fact that the net investment is held through an intermediate controlling entity does not affect the nature of the economic risk arising from the foreign currency exposure to the ultimate controlling entity.

C9. An exposure to foreign currency risk arising from a net investment in a foreign operation may qualify for hedge accounting only once in the consolidated financial statements. Therefore, if the same net assets of a foreign operation are hedged by more than one controlling entity within the economic entity (e.g., both a direct and an indirect controlling entity) for the same risk, only one hedging relationship will qualify for hedge accounting in the consolidated financial statements of the ultimate controlling entity. A hedging relationship designated by one controlling entity in its consolidated financial statements need not be maintained by another higher level controlling entity. However, if it is not maintained by the higher level controlling entity, the hedge accounting applied by the lower level controlling entity must be reversed before the higher level controlling entity's hedge accounting is recognized.

Where the Hedging Instrument can be Held

C10. A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the economic entity (except the foreign operation that itself is being hedged), as long as the designation, documentation and effectiveness requirements of IPSAS 29 paragraph 98 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the economic entity should be clearly documented because of the possibility of different designations at different levels of the economic entity.

C11. For the purpose of assessing effectiveness, the change in value of the hedging instrument in respect of foreign exchange risk is computed by reference to the functional currency of the controlling entity against whose functional currency the hedged risk is measured, in accordance with the hedge accounting documentation. Depending on where the hedging instrument is held, in the absence of hedge accounting the total change in value might be recognized in surplus or deficit, directly in net assets/equity, or both. However, the assessment of effectiveness is not affected by whether the change in value of the hedging instrument is recognized in surplus or deficit or directly in net assets/equity. As part of the application of hedge accounting, the total effective portion of the change is included directly in net assets/equity. The assessment of effectiveness is not affected by whether the hedging instrument is a derivative or a non-derivative instrument or by the method of consolidation.

Disposal of a Hedged Foreign Operation

C12. When a foreign operation that was hedged is disposed of, the amount reclassified to surplus or deficit from the foreign currency translation reserve in the consolidated financial statements of the controlling entity in respect of the hedging instrument is the amount that IPSAS 29 paragraph 113 requires to be identified. That amount is the cumulative gain or loss on the hedging instrument that was determined to be an effective hedge.

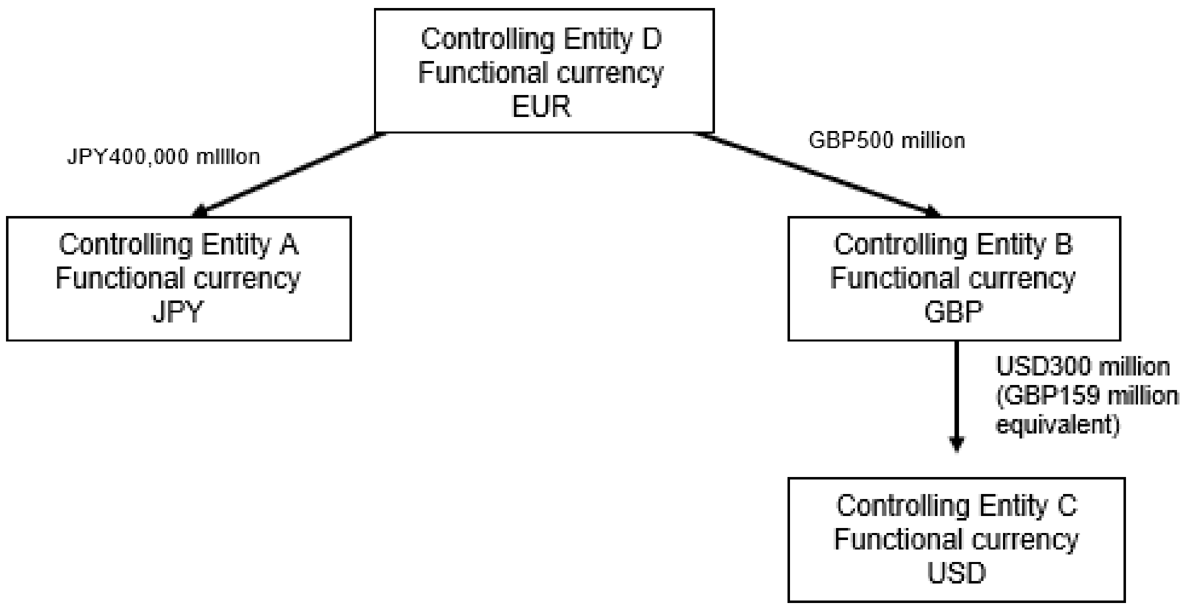
C13. The amount recognized in surplus or deficit upon transfer from the foreign currency translation reserve in the consolidated financial statements of a controlling entity in respect of the net investment in that foreign operation in accordance with IPSAS 4 paragraph 57 is the amount included in that controlling entity's foreign currency translation reserve in respect of that foreign operation. In the ultimate controlling entity's consolidated financial statements, the aggregate net amount recognized in the foreign currency translation reserve in respect of all foreign operations is not affected by the consolidation method. However, whether the ultimate controlling entity uses the direct or the step-by-step method of consolidation, this may affect the amount included in its foreign currency translation reserve in respect of an individual foreign operation.

C14. The direct method is the method of consolidation in which the financial statements of the foreign operation are translated directly into the functional currency of the ultimate controlling entity. The step-by-step method is the method of consolidation in which the financial statements of the foreign operation are first translated into the functional currency of any intermediate controlling entity(ies) and then translated into the functional currency of the ultimate controlling entity (or the presentation currency if different).

C15. The use of the step-by-step method of consolidation may result in a different amount being recognized in surplus or deficit from that used to determine hedge effectiveness. This difference may be eliminated by determining the amount relating to that foreign operation that would have arisen if the direct method of consolidation had been used. Making this adjustment is not required by IPSAS 4. However, it is an accounting policy choice that should be followed consistently for all net investments.

Example

C16. The following example illustrates the application of the preceding paragraphs using the entity structure illustrated below. In all cases the hedging relationships described would be tested for effectiveness in accordance with IPSAS 29, although this testing is not discussed. Controlling Entity D, being the ultimate controlling entity, presents its consolidated financial statements in its functional currency of euro (EUR). Each of the controlled entities i.e., Controlled Entity A, Controlled Entity B and Controlled Entity C, is wholly owned. Controlling Entity D £500 million net investment in Controlled Entity B (functional currency pounds sterling (GBP)) includes the £159 million equivalent of Controlled Entity B's US$300 million net investment in Controlled Entity C (functional currency US dollars (USD)). In other words, Controlled Entity B's net assets other than its investment in Controlled Entity C are £341 million.



Nature of Hedged Risk for which a Hedging Relationship may be Designated (paragraphs C6–C9)

C17. Controlling Entity D can hedge its net investment in each of Controlled Entities A, B and C for the foreign exchange risk between their respective functional currencies (Japanese yen (JPY), pounds sterling and US dollars) and euro. In addition, Controlled Entity D can hedge the USD/GBP foreign exchange risk between the functional currencies of Controlled Entity B and Controlled Entity C. In its consolidated financial statements, Controlled Entity B can hedge its net investment in Controlled Entity C for the foreign exchange risk between their functional currencies of US dollars and pounds sterling. In the following examples the designated risk is the spot foreign exchange risk because the hedging instruments are not derivatives. If the hedging instruments were forward contracts, Controlling Entity D could designate the forward foreign exchange risk.

Amount of Hedged item for which a Hedging Relationship may be Designated (paragraphs C6–C9)

C18. Controlling Entity D wishes to hedge the foreign exchange risk from its net investment in Controlled Entity C. Assume that Controlled Entity A has an external borrowing of US$300 million. The net assets of Controlled Entity A at the start of the reporting period are ¥400,000 million including the proceeds of the external borrowing of US$300 million.

C19. The hedged item can be an amount of net assets equal to or less than the carrying amount of Controlling Entity D's net investment in Controlled Entity C (US$300 million) in its consolidated financial statements. In its consolidated financial statements Controlling Entity D can designate the US$300 million external borrowing in Controlled Entity A as a hedge of the EUR/USD spot foreign exchange risk associated with its net investment in the US$300 million net assets of Controlled Entity C. In this case, both the EUR/USD foreign exchange difference on the US$300 million external borrowing in Controlled Entity A and the EUR/USD foreign exchange difference on the US$300 million net investment in Controlled Entity C are included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements after the application of hedge accounting.

C20. In the absence of hedge accounting, the total USD/EUR foreign exchange difference on the US$300 million external borrowing in Controlled Entity A would be recognized in Controlling Entity D's consolidated financial statements as follows:

- USD/JPY spot foreign exchange rate change, translated to euro, in surplus or deficit; and
- JPY/EUR spot foreign exchange rate change directly in net assets/equity.

Instead of the designation in paragraph C19, in its consolidated financial statements Controlling Entity D can designate the US$300 million external borrowing in Controlled Entity A as a hedge of the GBP/USD spot foreign exchange risk between Controlled Entity C and Controlled Entity B. In this case, the total USD/EUR foreign exchange difference on the US$300 million external borrowing in Entity A would instead be recognized in Controlled Entity D's consolidated financial statements as follows:

- The GBP/USD spot foreign exchange rate change in the foreign currency translation reserve relating to Controlled Entity C;
- GBP/JPY spot foreign exchange rate change, translated to euro, in surplus or deficit; and
- JPY/EUR spot foreign exchange rate change directly in net assets/equity.

C21. Controlling Entity D cannot designate the US$300 million external borrowing in Controlled Entity A as a hedge of both the EUR/USD spot foreign exchange risk and the GBP/USD spot foreign exchange risk in its consolidated financial statements. A single hedging instrument can hedge the same designated risk only once. Controlled Entity B cannot apply hedge accounting in its consolidated financial statements because the hedging instrument is held outside the economic entity comprising Controlled Entity B and Controlled Entity C.

Where in an Economic Entity can the Hedging Instrument be Held (paragraphs C10 and C11)?

C22. As noted in paragraph C20, the total change in value in respect of foreign exchange risk of the US$300 million external borrowing in Controlled Entity A would be recorded in both surplus or deficit (USD/JPY spot risk) and directly in net assets/equity (EUR/JPY spot risk) in Controlling Entity D's consolidated financial statements in the absence of hedge accounting. Both amounts are included for the purpose of assessing the effectiveness of the hedge designated in paragraph C19 because the change in value of both the hedging instrument and the hedged item are computed by reference to the euro functional currency of Controlling Entity D against the US dollar functional currency of Controlled Entity C, in accordance with the hedge documentation. The method of consolidation (i.e., direct method or step-by-step method) does not affect the assessment of the effectiveness of the hedge.

Amounts Recognized in Surplus or Deficit on Disposal of a Foreign Operation (paragraphs C12 and C13)

C23. When Controlled Entity C is disposed of, the amounts are recognized in surplus or deficit in Controlling Entity D's consolidated financial statements upon transfer from its foreign currency translation reserve (FCTR) are:

(a) In respect of the US$300 million external borrowing of Controlled Entity A, the amount that IPSAS 29 requires to be identified, i.e., the total change in value in respect of foreign exchange risk that was recognized directly in net assets/equity as the effective portion of the hedge; and

(b) In respect of the US$300 million net investment in Controlled Entity C, the amount determined by the entity's consolidation method. If Controlling Entity D uses the direct method, its FCTR in respect of Controlled Entity C will be determined directly by the EUR/USD foreign exchange rate. If Controlling Entity D uses the step-by-step method, its FCTR in respect of Controlled Entity C will be determined by the FCTR recognized by Controlled Entity B reflecting the GBP/USD foreign exchange rate, translated to Controlling Entity D's functional currency using the EUR/GBP foreign exchange rate. Controlling Entity D's use of the step-by-step method of consolidation in prior periods does not require it to or preclude it from determining the amount of FCTR to be recognized in surplus or deficit when it disposes of Controlled Entity C to be the amount that it would have recognized if it had always used the direct method, depending on its accounting policy.

Hedging More Than One Foreign Operation (paragraphs C7, C9, and C11)

C24. The following examples illustrate that in the consolidated financial statements of Controlling Entity D, the risk that can be hedged is always the risk between its functional currency (euro) and the functional currencies of Controlled Entities B and C. No matter how the hedges are designated, the maximum amounts that can be effective hedges to be included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements when both foreign operations are hedged are US$300 million for EUR/USD risk and £341 million for EUR/GBP risk. Other changes in value due to changes in foreign exchange rates are included in Controlling Entity D's consolidated surplus or deficit. Of course, it would be possible for Controlling Entity D to designate US$300 million only for changes in the USD/GBP spot foreign exchange rate or £500 million only for changes in the GBP/EUR spot foreign exchange rate.

Entity D Holds Both USD and GBP Hedging Instruments

C25. Controlling Entity D may wish to hedge the foreign exchange risk in relation to its net investment in Controlled Entity B as well as that in relation to Controlled Entity C. Assume that Controlling Entity D holds suitable hedging instruments denominated in US dollars and pounds sterling that it could designate as hedges of its net investments in Controlled Entity B and Controlled Entity C. The designations Controlling Entity D can make in its consolidated financial statements include, but are not limited to, the following:

(a) US$300 million hedging instrument designated as a hedge of the US$300 million of net investment in Controlled Entity C with the risk being the spot foreign exchange exposure (EUR/USD) between Controlling Entity D and Controlled Entity C and up to £341 million hedging instrument designated as a hedge of £341 million of the net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (EUR/GBP) between Controlling Entity D and Controlled Entity B.

(b) US$300 million hedging instrument designated as a hedge of the US$300 million of net investment in Controlled Entity C with the risk being the spot foreign exchange exposure (GBP/USD) between Controlled Entity B and Controlled Entity C and up to £500 million hedging instrument designated as a hedge of £500 million of the net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (EUR/GBP) between Controlling Entity D and Controlled Entity B.

C26. The EUR/USD risk from Controlling Entity D's net investment in Controlled Entity C is a different risk from the EUR/GBP risk from Controlling Entity D's net investment in Controlled Entity B. However, in the case described in paragraph C25(a), by its designation of the USD hedging instrument it holds, Controlling Entity D has already fully hedged the EUR/USD risk from its net investment in Controlled Entity C. If Controlling Entity D also designated a GBP instrument it holds as a hedge of its £500 million net investment in Controlled Entity B, £159 million of that net investment, representing the GBP equivalent of its USD net investment in Controlled Entity C, would be hedged twice for GBP/EUR risk in Controlling Entity D's consolidated financial statements.

C27. In the case described in paragraph C25(b), if Controlling Entity D designates the hedged risk as the spot foreign exchange exposure (GBP/USD) between Controlled Entity B and Controlled Entity C, only the GBP/USD part of the change in the value of its US$300 million hedging instrument is included in Controlling Entity D's foreign currency translation reserve relating to Controlled Entity C. The remainder of the change (equivalent to the GBP/EUR change on £159 million) is included in Controlling Entity D's consolidated surplus or deficit, as in paragraph C20. Because the designation of the USD/GBP risk between Controlled entities B and C does not include the GBP/EUR risk, Controlled Entity D is also able to designate up to £500 million of its net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (GBP/EUR) between Controlling Entity D and Controlled Entity B.

Entity B Holds the USD Hedging Instrument

C28. Assume that Controlled Entity B holds US$300 million of external debt, the proceeds of which were transferred to Controlling Entity D by an inter-entity loan denominated in pounds sterling. Because both its assets and liabilities increased by £159 million, Controlled Entity B's net assets are unchanged. Controlled Entity B could designate the external debt as a hedge of the GBP/USD risk of its net investment in Controlled Entity C in its consolidated financial statements. Controlling Entity D could maintain Controlled Entity B's designation of that hedging instrument as a hedge of its US$300 million net investment in Controlled Entity C for the GBP/USD risk (see paragraph C9) and Controlling Entity D could designate the GBP hedging instrument it holds as a hedge of its entire £500 million net investment in Controlled Entity B. The first hedge, designated by Controlled Entity B, would be assessed by reference to Controlled Entity B's functional currency (pounds sterling) and the second hedge, designated by Controlling Entity D, would be assessed by reference to Controlling Entity D's functional currency (euro). In this case, only the GBP/USD risk from Controlling Entity D's net investment in Controlled Entity C has been hedged in Controlling Entity D's consolidated financial statements by the USD hedging instrument, not the entire EUR/USD risk. Therefore, the entire EUR/GBP risk from Controlling Entity D's £500 million net investment in Controlled Entity B may be hedged in the consolidated financial statements of Controlling Entity D.

C29. However, the accounting for Controlled Entity D's £159 million loan payable to Controlled Entity B must also be considered. If Controlling Entity D's loan payable is not considered part of its net investment in Controlled Entity B because it does not satisfy the conditions in IPSAS 4 paragraph 18, the GBP/EUR foreign exchange difference arising on translating it would be included in Controlling Entity D's consolidated surplus or deficit. If the £159 million loan payable to Controlled Entity B is considered part of Controlling Entity D's net investment, that net investment would be only £341 million and the amount Controlling Entity D could designate as the hedged item for GBP/EUR risk would be reduced from £500 million to £341 million accordingly.

C30. If Controlling Entity D reversed the hedging relationship designated by Controlled Entity B, Controlling Entity D could designate the US$300 million external borrowing held by Controlled Entity B as a hedge of its US$300 million net investment in Controlled Entity C for the EUR/USD risk and designate the GBP hedging instrument it holds itself as a hedge of only up to £341 million of the net investment in Controlled Entity B. In this case the effectiveness of both hedges would be computed by reference to Controlling Entity D's functional currency (euro). Consequently, both the USD/GBP change in value of the external borrowing held by Controlled Entity B and the GBP/EUR change in value of Controlling Entity D's loan payable to Controlled Entity B (equivalent to USD/EUR in total) would be included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements. Because Controlling Entity D has already fully hedged the EUR/USD risk from its net investment in Controlled Entity C, it can hedge only up to £341 million for the EUR/GBP risk of its net investment in Controlled Entity B.

Appendix D

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 29.

Introduction

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 29, *Financial Instruments: Recognition and Measurement*. As this Standard is based on IAS 39, *Financial Instruments: Recognition and Measurement* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 29 departs from the main requirements of IAS 39.

BC2. This project on financial instruments forms part of the IPSASB's convergence program which aims to converge IPSAS with IFRS. The IPSASB acknowledges that there are other aspects of financial instruments, insofar as they relate to the public sector, which are not addressed in IAS 39. These will be addressed by future projects of the IPSASB. In particular, the IPSASB acknowledges that future projects are required to address:

- Certain transactions undertaken by central banks; and
- Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

BC3. In developing this Standard, the IPSASB agreed to retain the existing text of IAS 39 wherever consistent with existing IPSAS, and deal with certain public sector specific issues through additional application guidance.

BC4. In September 2007, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* which introduced "comprehensive income" into the presentation of financial statements. As the IPSASB has not yet considered comprehensive income, along with some of the other amendments proposed in IAS 1, those amendments have not been included in IPSAS 29. The text of IAS 39 as published at December 31, 2008, including certain amendments made by the IASB to IAS 39 in April 2009 as part of its improvements project, have been included in the text of IPSAS 29. The IPSASB acknowledged that IFRS 9, *Financial Instruments* was issued in November 2009. The IPSASB also recognized that the IASB plans further significant modifications to IAS 39. The IPSASB therefore decided to consider any modifications to IASB requirements for financial instruments as part of a future project.[2]

Scope

BC5. Assets and liabilities may arise out of contractual non-exchange revenue transactions. The initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 did not provide requirements and guidance for the subsequent measurement or derecognition of these assets and liabilities. The IPSASB considered the interaction between this Standard and IPSAS 23 for assets and liabilities that arise out of non-exchange revenue transactions that meet the definition of financial assets and financial liabilities.

BC6. When this Standard was being developed, the IPSASB agreed that where an asset acquired in a non-exchange transaction was a financial asset, an entity:

- Initially recognized the asset using IPSAS 23; and
- Initially measured the asset using IPSAS 23 and, considered the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

[2] In January 2015 the IPSASB introduced the concept of investment entities in IPSAS 35 and required investment entities, as defined in that Standard, to measure their investments in controlled entities, other than those providing investment-related services or activities, at fair value through surplus or deficit.

As IPSAS 23 did not prescribe subsequent measurement or derecognition requirements for assets acquired in a non-exchange transaction, this Standard is applied to those assets if they are financial assets.

BC7. For liabilities, the IPSASB agreed that liabilities arising from conditions imposed on a transfer of resources in accordance with IPSAS 23 are initially recognized and initially measured using that IPSAS, as these liabilities usually do not meet the definition of a financial liability at initial recognition (see IPSAS 28). After initial recognition, if circumstances indicate that the liability is a financial liability, an entity assesses if the liability recognized in accordance with IPSAS 23 should be derecognized and a financial liability recognized in accordance with this Standard.

BC8. The IPSASB agreed that other liabilities that arise from non-exchange revenue transactions, for example, the return of resources based on a restriction on the use of an asset, are recognized and measured in accordance with this Standard if they meet the definition of a financial liability.

Initial Measurement

BC9. The IPSASB acknowledged that there was an interaction between IPSAS 23 and this Standard for assets acquired through a non-exchange transaction that also meet the definition of a financial asset. IPSAS 23 required that assets acquired in a non-exchange revenue transaction are measured initially at fair value. This Standard required financial assets to be measured initially at fair value, plus transaction costs, if the asset is not subsequently measured at fair value through surplus or deficit. The two measurement approaches are broadly consistent, except for the treatment of transaction costs.

BC10. At that time, the IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

Concessionary Loans

BC11. Concessionary loans can either be granted or received by an entity. They pose particular accounting issues because their terms are not market related. The IPSASB therefore considered how the off-market portion of a concessionary loan should be accounted for. In ED 38, the IPSASB proposed that an entity should account for concessionary loans by analyzing the substance of the transaction into its component parts and accounting for each component separately and that the IPSASB therefore determined that the off-market portion of a concessionary loan should be accounted for as follows:

- The issuer of a concessionary loan accounts for the off-market portion of the loan as an expense in the year the loan is issued; and
- The recipient of a concessionary loan accounts for the off-market portion of the loan in accordance with IPSAS 23.

BC12. Some respondents to ED 38 disagreed with the proposed treatment of concessionary loans because they do not believe that fair value is an appropriate measurement basis, while others disagreed with the proposed treatment of the off-market portion of concessionary loans as an expense.

BC13. Respondents who disagreed with fair value as a measurement basis cited both conceptual and practical difficulties in measuring concessionary loans at fair value. At a conceptual level, it was noted that some concessionary loans issued by public sector entities may not be available in an orderly market because of the risk profiles of the borrowers, e.g., small business loans, or loans granted by governments in their capacity as a lender of last resort. For loans that would not ordinarily be found in an orderly market, respondents argued that while it may be possible to obtain a fair value, that fair value does not provide a faithful representation of the transaction. They argued that because an orderly market for such transactions does not exist, the transaction price on initial measurement represents the fair value of the loan. Those respondents who cited practical difficulties in determining fair value noted that, because of these difficulties, fair values are often determined using estimates. In their view the use of such estimates would make the information potentially unreliable. As a means of overcoming these practical difficulties, respondents suggested that, as an alternative to fair value, nominal cost or the lender's borrowing rate should be used as a measurement basis.

BC14. The IPSASB takes the view that the use of fair value enables the most faithfully representative determination of the concession element of a concessionary loan. Also, because the loans granted at no or low interest are not unique to the public sector, the IPSASB was not persuaded that there is a public sector specific reason to depart from the fair value principles in IAS 39. They also noted that IPSAS 30 requires specific disclosures on the measurement of financial instruments, including those instances where unobservable market inputs have been used. Consequently, the IPSASB decided to retain fair value as a measurement basis for concessionary loans.

BC15. Respondents who disagreed with expensing the off-market portion of the concessionary loan, noted that because the off-market portion represents a subsidy, it may be more appropriate to recognize an asset initially and recognize an expense subsequently by reducing this asset as and when the conditions of the subsidy are met or on a time proportion basis. The IPSASB, however, considered that the initial granting of the loan results in a commitment of resources, in the form of a loan and a subsidy, on day one. The IPSASB was of the view that initial recognition of this subsidy as an expense on recognition of the transaction provides the most useful information for accountability purposes.

Financial Guarantees Issued Through a Non-Exchange Transaction

BC16. The IPSASB acknowledged that in the public sector financial guarantee contracts are frequently issued through a non-exchange transaction, i.e., they are issued for no consideration or for nominal consideration, often in order to further the issuer's broad social policy objectives, rather than for commercial purposes. While entities may issue guarantees at below fair value in the private sector, this is not common and is for commercial reasons, such as when a controlling entity issues a guarantee to a holder on behalf of a controlled entity. In the public sector the maximum credit risk exposure of such guarantees may be extremely large. Such guarantees are generally issued because an active market does not exist and, in some cases, it would be impossible for the guarantee to be provided by a private sector issuer because of the maximum extent of the credit risk exposure. The IPSASB considered the approach to measurement at initial recognition, and subsequent to initial recognition, for such financial guarantee contracts.

BC17. Where the financial guarantee contract is entered into for consideration, the IPSASB considered whether the amount of such consideration should be deemed to be a fair value. Application Guidance in IAS 39 states that "the fair value of a financial instrument on initial recognition is normally the transaction price." In the public sector the IPSASB considered that in many cases the transaction price (consideration) related to a financial guarantee contract will not reflect fair value and that recognition at such an amount would be an inaccurate and misleading reflection of the issuer's exposure to financial risk. The IPSASB concluded that where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and therefore represents a fair value. If the consideration does represent a fair value, the IPSASB concluded that entities should recognize the financial guarantee at the amount of the consideration and that subsequent measurement should be at the higher of the amount determined in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized, less, when appropriate, the cumulative amount of revenue recognized in accordance with IPSAS 47, *Revenue*. Where the transaction consideration is not a fair value, an entity should be required to determine measurement at initial recognition in the same way as if no consideration had been paid.

BC18. The IPSASB therefore considered the approach to the determination of measurement at initial recognition for financial guarantee contracts provided for no consideration or for a consideration that is not a fair value. The IPSASB identified a valuation hierarchy that could be used in initially measuring a financial guarantee contract provided for no consideration or for consideration that is not a fair value:

- An entity assesses whether the fair value of the financial guarantee contract can be determined by observing a price in an active market;
- Where a price cannot be determined by observing a price in an active market, an entity uses a valuation technique; and
- If fair value cannot be determined for a financial guarantee contract, an entity measures a financial guarantee contract at initial recognition and subsequently in accordance with IPSAS 19.

BC19. There may be cases where an active market exists for financial guarantee contracts equivalent to or similar to that issued. In such cases a fair value should be estimated through observation of that active market. Where no active market exists, the IPSASB considered whether an entity should be required to move immediately to an approach based on IPSAS 19. The IPSASB noted that many valuation techniques are highly complex and, as noted in paragraphs AG107 and AG108 may give rise to a range of outcomes. It is arguable that the cost of developing such techniques exceeds the benefits to users of the information provided. An approach based on IPSAS 19 may provide a more reliable and understandable measure of an issuer's risk exposure as a result of entering into a financial guarantee contract. The IPSASB also acknowledged that where an entity does not recognize a liability in accordance with IPSAS 19, the entity makes the disclosures required for contingent liabilities in IPSAS 19 unless an outflow of resources is remote. The information provided to users on risk exposure related to financial guarantees provided at nil or nominal consideration also includes the credit risk disclosures in IPSAS 30, *Financial Instruments: Disclosures*. Conversely, the IPSASB acknowledged that there are current IPSAS that require the use of experts, such as actuaries, to develop valuation techniques that are inherently complex, such as IPSAS 39, *Employee Benefits*. On balance the IPSASB concluded that, in the absence of an active market, entities should be permitted to use a valuation technique that does not rely on an observable market where they are satisfied that such a technique provides a reliable and understandable method of determining a fair value for a financial guarantee contract entered into by an issuer by means of a non-exchange transaction. This is particularly the case for non-standard guarantees where there is limited data available on defaults and credit risk.

Revision of IPSAS 29 as a result of the IPSASB's The Applicability of IPSAS, issued in April 2016

BC20. 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 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 29 as a result of Improvements to IPSAS, 2021

BC21. The IPSASB reviewed the revisions to IAS 39, *Financial Instruments: Recognition and Measurement*, included in *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7) issued by the IASB in September 2019, 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, henceforth labeled as *Interest Rate Benchmark Reform*.

BC22. The IPSASB reviewed the revisions to IAS 39, Financial Instruments: Recognition and Measurement, included in Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as Interest Rate Benchmark Reform—Phase 2.

BC23. In addition to the above amendments to IPSAS 29 (as amended by IPSAS 41 when it was first published in 2018), the IPSASB considered that entities still applying IPSAS 29 (prior to the adoption of IPSAS 41) could benefit from the amendments to the hedging section included in paragraphs 113A–113ZC of IPSAS 29 (as amended by IPSAS 41 when it was first published in 2018) and the amendments on the practical expedient for changes in the contractual cash flows of financial instruments included in paragraphs 72A–72E of IPSAS 41.

BC24. While the amendments in paragraphs 72A–72E of IPSAS 41 were unnecessary in the IASB's IPSAS 29 equivalent standard, IAS 39, they are necessary in IPSAS 29 (prior to the adoption of IPSAS 41) because the sections on contractual cash flows are effective until January 1, 2023.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 29.

Section A–G

[Deleted]

Illustrative Examples

These examples accompany, but are not part of, IPSAS 29.

Hedging Interest Rate Risk for a Portfolio of Assets and Liabilities

IE1. On January 1, 20X1 Entity A identifies a portfolio comprising assets and liabilities whose interest rate risk it wishes to hedge. The liabilities include demandable deposit liabilities that the depositor may withdraw at any time without notice. For risk management purposes, the entity views all of the items in the portfolio as fixed rate items.

IE2. For risk management purposes, Entity A analyzes the assets and liabilities in the portfolio into repricing time periods based on expected repricing dates. The entity uses monthly time periods and schedules items for the next five years (i.e., it has 60 separate monthly time periods).[1] The assets in the portfolio are prepayable assets that Entity A allocates into time periods based on the expected prepayment dates, by allocating a percentage of all of the assets, rather than individual items, into each time period. The portfolio also includes demandable liabilities that the entity expects, on a portfolio basis, to repay between one month and five years and, for risk management purposes, are scheduled into time periods on this basis. On the basis of this analysis, Entity A decides what amount it wishes to hedge in each time period.

IE3. This example deals only with the repricing time period expiring in three months' time, i.e., the time period maturing on March 31, 20X1 (a similar procedure would be applied for each of the other 59 time periods). Entity A has scheduled assets of CU100 million and liabilities of CU80 million into this time period. All of the liabilities are repayable on demand.

IE4. Entity A decides, for risk management purposes, to hedge the net position of CU20 million and accordingly enters into an interest rate swap[2] on January 1, 20X1, to pay a fixed rate and receive London Interbank Offered Rate (LIBOR), with a notional principal amount of CU20 million and a fixed life of three months.

IE5. This example makes the following simplifying assumptions:

(a) The coupon on the fixed leg of the swap is equal to the fixed coupon on the asset;

(b) The coupon on the fixed leg of the swap becomes payable on the same dates as the interest payments on the asset; and

(c) The interest on the variable leg of the swap is the overnight LIBOR rate. As a result, the entire fair value change of the swap arises from the fixed leg only, because the variable leg is not exposed to changes in fair value due to changes in interest rates.

In cases when these simplifying assumptions do not hold, greater ineffectiveness will arise. (The ineffectiveness arising from (a) could be eliminated by designating as the hedged item a portion of the cash flows on the asset that are equivalent to the fixed leg of the swap).

IE6. It is also assumed that Entity A tests effectiveness on a monthly basis.

IE7. The fair value of an equivalent non-prepayable asset of CU20 million, ignoring changes in value that are not attributable to interest rate movements, at various times during the period of the hedge is as follows:

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[1] In this example principal cash flows have been scheduled into time periods but the related interest cash flows have been included when calculating the change in fair value of the hedged item. Other methods of scheduling assets and liabilities are also possible. Also, in this example, monthly repricing time periods have been used. An entity may choose narrower or wider time periods.

[2] This example uses a swap as the hedging instrument. An entity may use forward rate agreements or other derivatives as hedging instruments.

	Jan 1, 20X1	Jan 31, 20X1	Feb 1, 20X1	Feb 28, 20X1	Mar 31, 20X1
Fair value (asset) (CU)	20,000,000	20,047,408	20,047,408	20,023,795	Nil

IE8. The fair value of the swap at various times during the period of the hedge is as follows:

	Jan 1, 20X1	Jan 31, 20X1	Feb 1, 20X1	Feb-28, 20X1	Mar 31, 20X1
Fair value (liability) (CU)	Nil	(47,408)	(47,408)	(23,795)	Nil

Accounting Treatment

IE9. On January 1, 20X1, Entity A designates as the hedged item an amount of CU20 million of assets in the three-month time period. It designates as the hedged risk the change in the value of the hedged item (i.e., the CU20 million of assets) that is attributable to changes in LIBOR. It also complies with the other designation requirements set out in paragraphs 98(d) and AG162 of the Standard.

IE10. Entity A designates as the hedging instrument the interest rate swap described in paragraph IE4.

End of Month 1 (January 31, 20X1)

IE11. On January 31, 20X1 (at the end of month 1) when Entity A tests effectiveness, LIBOR has decreased. Based on historical prepayment experience, Entity A estimates that, as a consequence, prepayments will occur faster than previously estimated. As a result it re-estimates the amount of assets scheduled into this time period (excluding new assets originated during the month) as CU96 million.

IE12. The fair value of the designated interest rate swap with a notional principal of CU20 million is (CU47,408)[3] (the swap is a liability).

IE13. Entity A computes the change in the fair value of the hedged item, taking into account the change in estimated prepayments, as follows.

(a) First, it calculates the percentage of the initial estimate of the assets in the time period that was hedged. This is 20 percent (CU20 million ÷ CU100 million).

(b) Second, it applies this percentage (20 percent) to its revised estimate of the amount in that time period (CU96 million) to calculate the amount that is the hedged item based on its revised estimate. This is CU19.2 million.

(c) Third, it calculates the change in the fair value of this revised estimate of the hedged item (CU19.2 million) that is attributable to changes in LIBOR. This is CU45,511 (CU47,408[4] × (CU19.2 million ÷ CU20 million)).

3 See paragraph IE8.

4 i.e., CU20,047,408 – CU 20,000,000, see paragraph IE7.

IE14. Entity A makes the following accounting entries relating to this time period:

Dr		Cash	CU172,097	
	Cr	Surplus or deficit (interest revenue)[5]		CU172,097

To recognize the interest received on the hedged amount (CU19.2 million).

Dr		Surplus or deficit (interest expense)	CU179,268	
	Cr	Surplus or deficit (interest revenue)		CU179,268
	Cr	Cash		Nil

To recognize the interest received and paid on the swap designated as the hedging instrument.

Dr		Surplus or deficit (loss)	CU47,408	
	Cr	Derivative liability		CU47,408

To recognize the change in the fair value of the swap.

Dr		Separate line item in the statement of financial position	CU45,511	
	Cr	Surplus or deficit (gain)		CU45,511

To recognize the change in the fair value of the hedged amount.

IE15. The net result on surplus or deficit (excluding interest revenue and interest expense) is to recognize a loss of (CU1,897). This represents ineffectiveness in the hedging relationship that arises from the change in estimated prepayment dates.

Beginning of Month 2

IE16. On February 1, 20X1 Entity A sells a proportion of the assets in the various time periods. Entity A calculates that it has sold 81/3 percent of the entire portfolio of assets. Because the assets were allocated into time periods by allocating a percentage of the assets (rather than individual assets) into each time period, Entity A determines that it cannot ascertain into which specific time periods the sold assets were scheduled. Hence it uses a systematic and rational basis of allocation. Based on the fact that it sold a representative selection of the assets in the portfolio, Entity A allocates the sale proportionately over all time periods.

IE17. On this basis, Entity A computes that it has sold 81/3 percent of the assets allocated to the three-month time period, i.e., CU8 million (81/3 percent of CU96 million). The proceeds received are CU8,018,400, equal to the fair value of the assets.[6] On derecognition of the assets, Entity A also removes from the separate line item in the statement of financial position an amount that represents the change in the fair value of the hedged assets that it has now sold. This is 81/3 percent of the total line item balance of CU45,511, i.e., CU3,793.

5 This example does not show how amounts of interest revenue and interest expense are calculated.

6 The amount realized on sale of the asset is the fair value of a prepayable asset, which is less than the fair value of the equivalent non-prepayable asset shown in IE7.

IE18. Entity A makes the following accounting entries to recognize the sale of the asset and the removal of part of the balance in the separate line item in the statement of financial position:

Dr		Cash	CU8,018,400	
	Cr	Asset		CU8,000,000
	Cr	Separate line item in the statement of financial position		CU3,793
	Cr	Surplus or deficit (gain)		CU14,607

To recognize the sale of the asset at fair value and to recognize a gain on sale

Because the change in the amount of the assets is not attributable to a change in the hedged interest rate, no ineffectiveness arises.

IE19. Entity A now has CU88 million of assets and CU80 million of liabilities in this time period. Hence the net amount Entity A wants to hedge is now CU8 million and, accordingly, it designates CU8 million as the hedged amount.

IE20. Entity A decides to adjust the hedging instrument by designating only a proportion of the original swap as the hedging instrument. Accordingly, it designates as the hedging instrument CU8 million or 40 percent of the notional amount of the original swap with a remaining life of two months and a fair value of CU18,963.[7] It also complies with the other designation requirements in paragraphs 98(a) and AG162 of the Standard. The CU12 million of the notional amount of the swap that is no longer designated as the hedging instrument is either classified as held for trading with changes in fair value recognized in surplus or deficit, or is designated as the hedging instrument in a different hedge.[8]

IE21. As at February 1, 20X1 and after accounting for the sale of assets, the separate line item in the statement of financial position is CU41,718 (CU45,511 – CU3,793), which represents the cumulative change in fair value of CU17.6[9] million of assets. However, as at February 1, 20X1, Entity A is hedging only CU8 million of assets that have a cumulative change in fair value of CU18,963.[10] The remaining separate line item in the statement of financial position of CU22,755[11] relates to an amount of assets that Entity A still holds but is no longer hedging. Accordingly Entity A amortizes this amount over the remaining life of the time period, i.e., it amortizes CU22,755 over two months.

IE22. Entity A determines that it is not practicable to use a method of amortization based on a recalculated effective yield and hence uses a straight-line method.

End of Month 2 (February 28, 20X1)

IE23. On February 28, 20X1 when Entity A next tests effectiveness, LIBOR is unchanged. Entity A does not revise its prepayment expectations. The fair value of the designated interest rate swap with a notional principal of

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7 CU47,408 × 40 percent.

8 The entity could instead enter into an offsetting swap with a notional principle of CU12 million to adjust its position and designate as the hedging instrument all CU20 million of the existing swap and all CU12 million of the new offsetting swap.

9 CU19.2 million – (8⅓ × CU19.2 million).

10 CU41,718 × (CU8 million/CU17.6 million).

11 CU41,718 – CU18,963.

CU8 million is (CU9,518)[12] (the swap is a liability). Also, Entity A calculates the fair value of the CU8 million of the hedged assets as at February 28, 20X1 as CU8,009,518.[13]

IE24. Entity A makes the following accounting entries relating to the hedge in this time period:

Dr		Cash	CU71,707	
	Cr	Surplus or deficit (interest revenue)		CU71,707

To recognize the interest received on the hedged amount (CU8 million).

Dr		Surplus or deficit (interest expense)	CU71,707	
	Cr	Surplus or deficit(interest revenue)		CU62,115
	Cr	Cash		CU9,592

To recognize the interest received and paid on the portion of the swap designated as the hedging instrument (CU8 million).

Dr		Derivative liability	CU9,445	
	Cr	Surplus or deficit (gain)		CU9,445

To recognize the change in the fair value of the portion of the swap designated as the hedging instrument (CU8 million) (CU9,518 – CU18,963).

Dr		Surplus or deficit (loss)	CU9,445	
	Cr	Separate line item in the statement of financial position		CU9,445

To recognize the change in the fair value of the hedged amount (CU8,009,518 – CU8,018,963).

IE25. The net effect on surplus or deficit (excluding interest revenue and interest expense) is nil reflecting that the hedge is fully effective.

IE26. Entity A makes the following accounting entry to amortize the line item balance for this time period:

Dr		Surplus or deficit (loss)	CU11,378	
	Cr	Separate line item in the statement of financial position		CU11,378 (a)

To recognize the amortization charge for the period.

(a) CU22,755 ÷ 2

End of Month 3

IE27. During the third month there is no further change in the amount of assets or liabilities in the three-month time period. On March 31, 20X1 the assets and the swap mature and all balances are recognized in surplus or deficit.

IE28. Entity A makes the following accounting entries relating to this time period:

12 CU23,795 [see paragraph IE8] × (CU8 million/CU20 million).

13 CU20,023,795 [see paragraph IE7] × (CU8 million/CU20 million).

Dr	Cash	CU8,071,707	
Cr	Asset (statement of financial position)		CU8,000,000
Cr	Surplus or deficit (interest revenue)		CU71,707

To recognize the interest and cash received on maturity of the hedged amount (CU8 million).

Dr	Surplus or deficit (interest expense)	CU71,707	
Cr	Surplus or deficit (interest revenue)		CU62,115
Cr	Cash		CU9,592

To recognize the interest received and paid on the portion of the swap designated as the hedging instrument (CU8 million).

Dr	Derivative liability	CU9,518	
Cr	Surplus or deficit (gain)		CU9,518

To recognize the expiry of the portion of the swap designated as the hedging instrument (CU8 million).

Dr	Surplus or deficit (loss)	CU9,518	
Cr	Separate line item in the statement of financial position		CU9,518

To remove the remaining line item balance on expiry of the time period.

IE29. The net effect on surplus or deficit (excluding interest revenue and interest expense) is nil reflecting that the hedge is fully effective.

IE30. Entity A makes the following accounting entry to amortize the line item balance for this time period:

Dr	Surplus or deficit (loss)	CU11,377	
Cr	Separate line item in the statement of financial position		CU11,377[(a)]

To recognize the amortization charge for the period.

(a) CU22,755 ÷ 2

Summary

IE31. The tables below summarize:

(a) Changes in the separate line item in the statement of financial position;

(b) The fair value of the derivative;

(c) The surplus or deficit effect of the hedge for the entire three-month period of the hedge; and

(d) Interest revenue and interest expense relating to the amount designated as hedged.

Description	**Jan 1, 20X1**	**Jan 31, 20X1**	**Feb 1, 20X1**	**Feb 28, 20X1**	**Mar 31, 20X1**
	CU	**CU**	**CU**	**CU**	**CU**
Amount of asset hedged	**20,000,000**	**19,200,000**	**8,000,000**	**8,000,000**	**8,000,000**
(a) **Changes in the separate line item in the statement of financial position**					
Brought forward:					
Balance to be amortized	Nil	Nil	Nil	22,755	11,377
Remaining balance	Nil	Nil	45,511	18,963	9,518
Less: Adjustment on sale of asset	Nil	Nil	(3,793)	Nil	Nil
Adjustment for change in fair value of the hedged asset	Nil	45,511	Nil	(9,445)	(9,518)
Amortization	Nil	Nil	Nil	(11,378)	(11,377)
Carried forward:					
Balance to be amortized	**Nil**	**Nil**	**22,755**	**11,377**	**Nil**
Remaining balance	**Nil**	**45,511**	**18,963**	**9,518**	**Nil**
(b) **The fair value of the derivative**					
CU20,000,000	Nil	47,408	–	–	–
CU12,000,000	Nil	–	28,445	No longer designated as the hedging instrument.	
CU8,000,000	Nil	–	18,963	9,518	Nil
Total	**Nil**	**47,408**	**47,408**	**9,518**	**Nil**
(c) **Effect of the hedge on surplus or deficit**					
Change in line item: asset	Nil	45,511	N/A	(9,445)	(9,518)
Change in derivative fair value	Nil	(47,408)	N/A	9,445	9,518
Net effect	**Nil**	**(1,897)**	**N/A**	**Nil**	**Nil**
Amortization	**Nil**	**Nil**	**N/A**	**(11,378)**	**(11,377)**

In addition, there is a gain on sale of assets of CU14,607 at February 1, 20X1.

(d) **Interest revenue and interest expense relating to the amount designated as hedged**					
Interest revenue					
– on the asset	Nil	172,097	N/A	71,707	71,707
– on the swap	Nil	179,268	N/A	62,115	62,115

Interest expense					
– on the swap	Nil	(179,268)	N/A	(71,707)	(71,707)

IE32–IE50. [Deleted]

COMPARISON WITH IAS 39

IPSAS 29, *Financial Instruments: Recognition and Measurement* is drawn primarily from IAS 39, *Financial Instruments: Recognition and Measurement* (including amendments up to December 31, 2008 as well as amendments made by the IASB to IAS 39 as part of its *Improvements to IFRS* in April 2009). The main differences between IPSAS 29 and IAS 39 are as follows:

- IPSAS 29 contains additional application guidance to deal with concessionary loans and financial guarantee contracts entered into at nil or nominal consideration. IAS 39 does not deal with these areas.
- In certain instances, IPSAS 29 uses different terminology from IAS 39. The most significant examples are the use of the terms “statement of financial performance” and “net assets/equity.” The equivalent terms in IAS 39 are “statement of comprehensive income or separate income statement (if presented)” and “equity.”
- IPSAS 29 does not distinguish between “revenue” and “income.” IAS 39 distinguishes between “revenue and “income,” with “income” having a broader meaning than the term “revenue.”
- Principles from IFRIC 9, *Reassessment of Embedded Derivatives* and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* have been included as authoritative appendices to IPSAS 29. The IASB issues IFRIC as separate documents.

IPSAS 30—FINANCIAL INSTRUMENTS: DISCLOSURES

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 7, *Financial Instruments: Disclosures* published by the International Accounting Standards Board (IASB®). Extracts from IFRS 7 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 30—FINANCIAL INSTRUMENTS: DISCLOSURES

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 30, *Financial Instruments: Disclosures* was issued in January 2010.

Since then, IPSAS 30 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 38, *Disclosure of Interests in Other Entities* (issued January 2015)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 30

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
2	Amended	IPSAS 41 August 2018
3	Amended	IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 39 July 2016 IPSAS 41 August 2018
4	Amended	IPSAS 41 August 2018
5	Amended	IPSAS 41 August 2018
5A	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023

Paragraph Affected	How Affected	Affected By
6	Deleted	*The Applicability of IPSAS* April 2016
7	Deleted	*The Applicability of IPSAS* April 2016
8	Amended	IPSAS 41 August 2018 IPSAS 46 May 2023
11	Amended	IPSAS 41 August 2018
12	Amended	IPSAS 41 August 2018
13	Amended	IPSAS 41 August 2018
13A	New	IPSAS 41 August 2018
14	Amended	IPSAS 41 August 2018
Heading above paragraph 14A	New	IPSAS 41 August 2018
14A	New	IPSAS 41 August 2018
14B	New	IPSAS 41 August 2018
15	Deleted	IPSAS 41 August 2018
15A	New	IPSAS 41 August 2018
15B	New	IPSAS 41 August 2018
15C	New	IPSAS 41 August 2018
16	Deleted	IPSAS 41 August 2018
Heading above paragraph 17	Deleted	IPSAS 41 August 2018
17	Deleted	IPSAS 41 August 2018
Heading above paragraph 17A	New	IPSAS 41 August 2018
17A	New	IPSAS 41 August 2018
17B	New	IPSAS 41 August 2018
17C	New	IPSAS 41 August 2018
17D	New	IPSAS 41 August 2018
17E	New	IPSAS 41 August 2018
17F	New	IPSAS 41 August 2018
18	Amended	IPSAS 41 August 2018
20	Deleted	IPSAS 41 August 2018
20A	New	IPSAS 41 August 2018
24	Amended	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
24A	New	IPSAS 41 August 2018
25A	New	IPSAS 41 August 2018
25B	New	IPSAS 41 August 2018
25C	New	IPSAS 41 August 2018
25D	New	IPSAS 41 August 2018
26	Deleted	IPSAS 41 August 2018
Heading above paragraph 26A	New	IPSAS 41 August 2018
26A	New	IPSAS 41 August 2018
26B	New	IPSAS 41 August 2018
26C	New	IPSAS 41 August 2018
Heading above paragraph 27	New	IPSAS 41 August 2018
27	Deleted	IPSAS 41 August 2018
27A	New	IPSAS 41 August 2018
27B	New	IPSAS 41 August 2018
27C	New	IPSAS 41 August 2018
27D	New	IPSAS 41 August 2018
27E	New	IPSAS 41 August 2018
27F	New	IPSAS 41 August 2018
Heading above paragraph 28	New	IPSAS 41 August 2018
28	Deleted	IPSAS 41 August 2018
28A	New	IPSAS 41 August 2018
28B	New	IPSAS 41 August 2018
28C	New	IPSAS 41 August 2018
28D	New	IPSAS 41 August 2018
28E	New	IPSAS 41 August 2018
28F	New	IPSAS 41 August 2018
Heading above paragraph 28G	New	IPSAS 41 August 2018
28G	New	IPSAS 41 August 2018
Heading above paragraph 28H	New	*Improvements to IPSAS* January 2022
28H	New	*Improvements to IPSAS* January 2022

Paragraph Affected	How Affected	Affected By
Heading above paragraph 28I	New	*Improvements to IPSAS* January 2022
28I	New	*Improvements to IPSAS* January 2022
28J	New	*Improvements to IPSAS* January 2022
30A	New	IPSAS 46 May 2023
30B	New	IPSAS 46 May 2023
30C	New	IPSAS 46 May 2023
30D	New	IPSAS 46 May 2023
30E	New	IPSAS 46 May 2023
30F	New	IPSAS 46 May 2023
30G	New	IPSAS 46 May 2023
30H	New	IPSAS 46 May 2023
30I	New	IPSAS 46 May 2023
31	Deleted	IPSAS 46 May 2023
32	Deleted	IPSAS 46 May 2023
33	Deleted	IPSAS 46 May 2023
34	Amended	IPSAS 41 August 2018 IPSAS 46 May 2023
35	Amended	IPSAS 41 August 2018 IPSAS 43 January 2022
36	Amended	IPSAS 41 August 2018
37	Amended	IPSAS 41 August 2018
37A	New	IPSAS 41 August 2018
39A	New	IPSAS 41 August 2018
41	Amended	IPSAS 41 August 2018
Heading above paragraph 42A	New	IPSAS 41 August 2018
42A	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
42B	New	IPSAS 41 August 2018
42C	New	IPSAS 41 August 2018
42D	New	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
42E	New	IPSAS 41 August 2018
Heading above paragraph 42F	New	IPSAS 41 August 2018
42F	New	IPSAS 41 August 2018
42G	New	IPSAS 41 August 2018
Heading above paragraph 42H	New	IPSAS 41 August 2018
42H	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
42I	New	IPSAS 41 August 2018
42J	New	IPSAS 41 August 2018
42K	New	IPSAS 41 August 2018
42L	New	IPSAS 41 August 2018
Heading above paragraph 42M	New	IPSAS 41 August 2018
42M	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
42N	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
43	Amended	IPSAS 41 August 2018
Heading above paragraph 44	Deleted	IPSAS 41 August 2018
44	Deleted	IPSAS 41 August 2018
45	Amended	IPSAS 41 August 2018
Heading above paragraph 49A	New	IPSAS 41 August 2018
49A	New	IPSAS 41 August 2018
49B	New	IPSAS 41 August 2018
49C	New	IPSAS 41 August 2018
Heading above paragraph 49D	New	IPSAS 41 August 2018
49D	New	IPSAS 41 August 2018
Heading above paragraph 49E	New	IPSAS 41 August 2018
49E	New	IPSAS 41 August 2018
49F	New	IPSAS 41 August 2018
49G	New	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
Heading above paragraph 49H	New	IPSAS 41 August 2018
49H	New	IPSAS 41 August 2018
Heading above paragraph 49I	New	IPSAS 41 August 2018
49I	New	IPSAS 41 August 2018
49J	New	IPSAS 41 August 2018
49K	New	IPSAS 41 August 2018
49L	New	IPSAS 41 August 2018
49M	New	IPSAS 41 August 2018
49N	New	IPSAS 41 August 2018
49O	New	IPSAS 41 August 2018
49P	New	IPSAS 41 August 2018
49Q	New	IPSAS 41 August 2018
49R	New	IPSAS 41 August 2018
49S	New	IPSAS 41 August 2018
52A	New	IPSAS 33 January 2015
52B	New	IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 38 January 2015
52C	New	*Improvements to IPSAS* April 2016
52D	New	*The Applicability of IPSAS* April 2016
52E	New	IPSAS 39 July 2016
52F	Amended	*COVID-19: Deferral of Effective Dates* November 2020
52G	Amended	*COVID-19: Deferral of Effective Dates* November 2020
52H	New	*Improvements to IPSAS* January 2022
52I	New	*Improvements to IPSAS* January 2022
52J	New	*Improvements to IPSAS* January 2022
52K	New	*Improvements to IPSAS* January 2022
52L	New	IPSAS 43 January 2022
52M	New	IPSAS 46 May 2023
52N	New	IPSAS 47 May 2023

Paragraph Affected	How Affected	Affected By
53	Amended	IPSAS 33 January 2015
AG1	Amended	IPSAS 41 August 2018
Headings above paragraph AG4	Deleted	IPSAS 41 August 2018
AG4	Deleted	IPSAS 41 August 2018
AG5	Amended	*Improvements to IPSAS* January 2020 IPSAS 41 August 2018
AG6	Amended	IPSAS 38 January 2015
Heading above paragraph AG8A	New	IPSAS 41 August 2018
AG8A	New	IPSAS 41 August 2018
AG8B	New	IPSAS 41 August 2018
AG8C	New	IPSAS 41 August 2018
Heading above paragraph AG8D	New	IPSAS 41 August 2018
AG8D	New	IPSAS 41 August 2018
AG8E	New	IPSAS 41 August 2018
Heading above paragraph AG8F	New	IPSAS 41 August 2018
AG8F	New	IPSAS 41 August 2018
AG8G	New	IPSAS 41 August 2018
Heading above paragraph AG8H	New	IPSAS 41 August 2018
AG8H	New	IPSAS 41 August 2018
AG8I	New	IPSAS 41 August 2018
AG8J	New	IPSAS 41 August 2018
AG9	Amended	IPSAS 41 August 2018
AG10	Amended	IPSAS 41 August 2018
AG16	Amended	IPSAS 43 January 2022
AG24	Amended	IPSAS 41 August 2018
AG29	Amended	IPSAS 41 August 2018
Headings above paragraph AG31	New	IPSAS 41 August 2018
AG31	New	IPSAS 41 August 2018
AG32	New	IPSAS 41 August 2018
AG32A	New	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
AG33	New	IPSAS 41 August 2018
Heading above paragraph AG34	New	IPSAS 41 August 2018
AG34	New	IPSAS 41 August 2018
Heading above paragraph AG35	New	IPSAS 41 August 2018
AG35	New	IPSAS 41 August 2018
Heading above paragraph AG36	New	IPSAS 41 August 2018
AG36	New	IPSAS 41 August 2018
AG37	New	IPSAS 41 August 2018
AG38	New	IPSAS 41 August 2018
Heading above paragraph AG39	New	IPSAS 41 August 2018
AG39	New	IPSAS 41 August 2018
Heading above paragraph AG40	New	IPSAS 41 August 2018
AG40	New	IPSAS 41 August 2018
Heading above paragraph AG41	New	IPSAS 41 August 2018
AG41	New	IPSAS 41 August 2018
Headings above paragraph AG42	New	IPSAS 41 August 2018
AG42	New	IPSAS 41 August 2018
AG43	New	IPSAS 41 August 2018
Heading above paragraph AG44	New	IPSAS 41 August 2018
AG44	New	IPSAS 41 August 2018
Heading above paragraph AG45	New	IPSAS 41 August 2018
AG45	New	IPSAS 41 August 2018
Heading above paragraph AG46	New	IPSAS 41 August 2018
AG46	New	IPSAS 41 August 2018
Heading above paragraph AG47	New	IPSAS 41 August 2018
AG47	New	IPSAS 41 August 2018
AG48	New	IPSAS 41 August 2018
Heading above paragraph AG49	New	IPSAS 41 August 2018
AG49	New	IPSAS 41 August 2018
AG50	New	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
Heading above paragraph AG51	New	IPSAS 41 August 2018
AG51	New	IPSAS 41 August 2018
Heading above paragraph AG52	New	IPSAS 41 August 2018
AG52	New	IPSAS 41 August 2018
Heading above paragraph AG53	New	IPSAS 41 August 2018
AG53	New	IPSAS 41 August 2018
AG54	New	IPSAS 41 August 2018
Heading above paragraph AG55	New	IPSAS 41 August 2018
AG55	New	IPSAS 41 August 2018
Heading above paragraph IG3	Deleted	IPSAS 41 August 2018
IG3	Deleted	IPSAS 41 August 2018
IG4	Deleted	IPSAS 41 August 2018
Heading above paragraph IG7	Deleted	IPSAS 41 August 2018
IG7	Deleted	IPSAS 41 August 2018
IG8	Deleted	IPSAS 41 August 2018
IG9	Deleted	IPSAS 41 August 2018
IG10	Deleted	IPSAS 41 August 2018
IG11	Deleted	IPSAS 41 August 2018
Heading above paragraph IG13A	New	*Improvements to IPSAS* January 2020
IG13A	New	*Improvements to IPSAS* January 2020
IG13B	New	*Improvements to IPSAS* January 2020
IG13C	New	*Improvements to IPSAS* January 2020
IG14	Amended	IPSAS 41 August 2018
IG15	Amended	IPSAS 41 August 2018 IPSAS 46 May 2023
IG16	Amended	IPSAS 41 August 2018 IPSAS 46 May 2023
Heading above paragraph IG22A	New	*Improvements to IPSAS* January 2020
IG22A	New	*Improvements to IPSAS* January 2020
Heading above paragraph IG22B	New	*Improvements to IPSAS* January 2020

Paragraph Affected	How Affected	Affected By
IG22B	New	*Improvements to IPSAS* January 2020
Heading above paragraph IG22C	New	*Improvements to IPSAS* January 2020
IG22C	New	*Improvements to IPSAS* January 2020
IG22D	New	*Improvements to IPSAS* January 2020
IG23	Amended	*Improvements to IPSAS* January 2020
Heading above paragraph IG25	Deleted	IPSAS 41 August 2018
IG25	Deleted	IPSAS 41 August 2018
IG26	Deleted	IPSAS 41 August 2018
IG27	Deleted	IPSAS 41 August 2018
Heading above paragraph IG28	Deleted	IPSAS 41 August 2018
IG28	Deleted	IPSAS 41 August 2018
IG29	Deleted	IPSAS 41 August 2018
IG30	Deleted	IPSAS 41 August 2018
IG31	Deleted	IPSAS 41 August 2018
IG36	Amended	IPSAS 41 August 2018
Heading above paragraph IG41	New	IPSAS 41 August 2018
IG41	New	IPSAS 41 August 2018
IG42	New	IPSAS 41 August 2018
IG43	New	IPSAS 41 August 2018
Heading above paragraph IG44	New	IPSAS 41 August 2018
IG44	New	IPSAS 41 August 2018
Heading above paragraph IG45	New	IPSAS 41 August 2018
IG45	New	IPSAS 41 August 2018

IPSAS 30—FINANCIAL INSTRUMENTS: DISCLOSURES

CONTENTS

International Public Sector Accounting Standard 30, *Financial Instruments: Disclosures*, is set out in paragraphs 1–54. All the paragraphs have equal authority. IPSAS 30 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:

   (a) The significance of financial instruments for the entity's financial position and performance; and

   (b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

2. The principles in this Standard complement the principles for recognizing, measuring, and presenting financial assets and financial liabilities in IPSAS 28, *Financial Instruments: Presentation* and IPSAS 41, *Financial Instruments*.

Scope

3. **This Standard shall be applied by all entities to all types of financial instruments, except:**

   (a) **Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* or IPSAS 36, *Investments in Associates and Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35, or IPSAS 36 require or permit an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 41; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures unless the derivative meets the definition of an equity instrument in IPSAS 28.**

   (b) **Employers' rights and obligations arising from employee benefit plans, to which IPSAS 39, *Employee Benefits* applies.**

   (c) **Rights and obligations arising under insurance contracts. However, this Standard applies to:**

      (i) **Derivatives that are embedded in insurance contracts if IPSAS 41 requires the entity to account for them separately; and**

      (ii) **An issuer of financial guarantee contracts if the issuer applies IPSAS 41 in recognizing and measuring the contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issuer elects to apply those standards in recognizing and measuring them.**

   In addition to (i) and (ii) above, an entity may apply this Standard to insurance contracts which involve the transfer of financial risk.

   (d) **Financial instruments, contracts, and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share-based payment applies, except for contracts within the scope of paragraphs 6–8 of IPSAS 41, to which that Standard applies.**

   (e) **Instruments that are required to be classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28.**

4. This Standard applies to recognized and unrecognized financial instruments. Recognized financial instruments include financial assets and financial liabilities that are within the scope of IPSAS 41. Unrecognized financial instruments include some financial instruments that, although outside the scope of IPSAS 41, are within the scope of this Standard (such as some loan commitments).

5. This Standard applies to contracts to buy or sell a non-financial item that are within the scope of IPSAS 41 (see paragraphs 6–8 of IPSAS 41).

5A. The credit risk disclosure requirements in paragraphs 42A–42N apply to those rights for receivables that result from revenue transactions within the scope of IPSAS 47, *Revenue* which give rise to financial instruments for the purpose of recognizing impairment gains or losses in accordance with paragraph 3 of IPSAS 41. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified.

6. [Deleted]

7. [Deleted]

Definitions

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

<u>Credit risk</u> is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

<u>Credit risk rating grades</u> is a rating of credit risk based on the risk of a default occurring on the financial instrument.

<u>Currency risk</u> is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

<u>Interest rate risk</u> is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

<u>Liquidity risk</u> is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

<u>Loans payable</u> are financial liabilities, other than short-term trade payables on normal credit terms.

<u>Market risk</u> is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

<u>Other price risk</u> is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

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.

Classes of Financial Instruments and Level of Disclosure

9. When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Significance of Financial Instruments for Financial Position and Financial Performance

10. **An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.**

Statement of Financial Position

Categories of Financial Assets and Financial Liabilities

11. The carrying amounts of each of the following categories, as defined in IPSAS 41, shall be disclosed either in the statement of financial position or in the notes:

   (a) Financial assets measured at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 152 of IPSAS 41, and (ii) those mandatorily measured at fair value through surplus or deficit in accordance with IPSAS 41;

   (b) [Deleted]

   (c) [Deleted]

   (d) [Deleted]

   (e) Financial liabilities at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 152 of IPSAS 41, and (ii) those that meet the definition of held for trading in IPSAS 41;

   (f) Financial assets measured at amortized cost;

   (g) Financial liabilities measured at amortized cost; and

   (h) Financial assets measured at fair value through net assets/equity, showing separately (i) financial assets that are measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41; and (ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 106 of IPSAS 41.

Financial Assets or Financial Liabilities at Fair Value through Surplus or Deficit

12. If the entity has designated as measured at fair value through surplus or deficit a financial asset (or group of financial assets) that would otherwise be measured at fair value through net assets/equity or amortized cost, it shall disclose:

   (a) The maximum exposure to credit risk (see paragraph 43(a)) of the financial asset (or group of financial assets) at the end of the reporting period.

   (b) The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk (see paragraph 43(b)).

   (c) The amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:

      (i) As the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or

      (ii) Using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

   Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate, or index of prices or rates.

   (d) The amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.

13. If the entity has designated a financial liability as at fair value through surplus or deficit in accordance with paragraph 46 of IPSAS 41 and is required to present the effects of changes in that liability's credit risk in net assets/equity (see paragraph 108 of IPSAS 41), it shall disclose:

(a) The amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs AG236–AG243 of IPSAS 41 for guidance on determining the effects of changes in a liability's credit risk);

(b) The difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

(c) Any transfers of the cumulative gain or loss within net assets/equity during the period including the reason for such transfers.

(d) If a liability is derecognized during the period, the amount (if any) presented in net assets/equity that was realized at derecognition.

13A. If an entity has designated a financial liability as at fair value through surplus or deficit in accordance with paragraph 46 of IPSAS 41 and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in surplus or deficit (see paragraphs 108 and 109 of IPSAS 41), it shall disclose:

(a) The amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs AG236–AG243 of IPSAS 41 for guidance on determining the effects of changes in a liability's credit risk); and

(b) The difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

14. The entity shall also disclose:

(a) A detailed description of the methods used to comply with the requirements in paragraphs 12(c), 13(a) and 13A(a) and paragraph 108(a) of IPSAS 41, including an explanation of why the method is appropriate.

(b) If the entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in paragraph 12(c), 13(a) or 13A(a) or paragraph 108(a) of IPSAS 41 does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

(c) A detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability's credit risk in net assets/equity would create or enlarge an accounting mismatch in surplus or deficit (see paragraphs 108 and 109 of IPSAS 41). If an entity is required to present the effects of changes in a liability's credit risk in surplus or deficit (see paragraph 109 of IPSAS 41), the disclosure must include a detailed description of the economic relationship described in paragraph AG229 of IPSAS 41.

Investments in Equity Instruments Designated at Fair Value through Net Assets/Equity

14A. If an entity has designated investments in equity instruments to be measured at fair value through net assets/equity, as permitted by paragraph 106 of IPSAS 41, it shall disclose:

(a) Which investments in equity instruments have been designated to be measured at fair value through net assets/equity.

(b) The reasons for using this presentation alternative.

(c) The fair value of each such investment at the end of the reporting period.

(d) Dividends recognized during the period, showing separately those related to investments derecognized during the reporting period and those related to investments held at the end of the reporting period.

(e) Any transfers of the cumulative gain or loss within net assets/equity during the period including the reason for such transfers.

14B. If an entity derecognized investments in equity instruments measured at fair value through net assets/equity during the reporting period, it shall disclose:

(a) The reasons for disposing of the investments.

(b) The fair value of the investments at the date of derecognition.

(c) The cumulative gain or loss on disposal.

Reclassification

15. [Deleted]

15A. An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 54 of IPSAS 41. For each such event, an entity shall disclose:

(a) The date of reclassification.

(b) A detailed explanation of the change in management model and a qualitative description of its effect on the entity's financial statements.

(c) The amount reclassified into and out of each category.

15B. For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified out of the fair value through surplus or deficit category so that they are measured at amortized cost or fair value through net assets/equity in accordance with paragraph 54 of IPSAS 41:

(a) The effective interest rate determined on the date of reclassification; and

(b) The interest revenue recognized.

15C. If, since its last reporting date, an entity has reclassified financial assets out of the fair value through net assets/equity category so that they are measured at amortized cost or out of the fair value through surplus or deficit category so that they are measured at amortized cost or fair value through net assets/equity it shall disclose:

(a) The fair value of the financial assets at the end of the reporting period; and

(b) The fair value gain or loss that would have been recognized in surplus or deficit or net assets/equity during the reporting period if the financial assets had not been reclassified.

16. [Deleted]

17. [Deleted]

Offsetting Financial Assets and Financial Liabilities

17A. The disclosures in paragraphs 17B–17E supplement the other disclosure requirements of this Standard and are required for all recognized financial instruments that are set off in accordance with paragraph 47 of IPSAS 28. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with paragraph 47 of IPSAS 28.

17B. An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities that are within the scope of paragraph 17A.

17C. To meet the objective in paragraph 17B, an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognized financial assets and recognized financial liabilities that are within the scope of paragraph 17A:

(a) The gross amounts of those recognized financial assets and recognized financial liabilities;

(b) The amounts that are set off in accordance with the criteria in paragraph 47 of IPSAS 28 when determining the net amounts presented in the statement of financial position;

(c) The net amounts presented in the statement of financial position;

(d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 17C(b), including:

(i) Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in paragraph 47 of IPSAS 28; and

(ii) Amounts related to financial collateral (including cash collateral); and

(e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

17D. The total amount disclosed in accordance with paragraph 17C(d) for an instrument shall be limited to the amount in paragraph 17C(c) for that instrument.

17E. An entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 17C(d), including the nature of those rights.

17F. If the information required by paragraphs 17B–17E is disclosed in more than one note to the financial statements, an entity shall cross-refer between those notes.

Collateral

18. An entity shall disclose:

(a) The carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 34(a) of IPSAS 41; and

(b) The terms and conditions relating to its pledge.

19. When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

(a) The fair value of the collateral held;

(b) The fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and

(c) The terms and conditions associated with its use of the collateral.

Allowance Account for Credit Losses

20. [Deleted]

20A. The carrying amount of financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41 is not reduced by a loss allowance and an entity shall not present the loss allowance separately in the statement of financial position as a reduction of the carrying amount of the financial asset. However, an entity shall disclose the loss allowance in the notes to the financial statements.

Compound Financial Instruments with Multiple Embedded Derivatives

21. If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 33 of IPSAS 28) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

Defaults and Breaches

22. For loans payable recognized at the end of the reporting period, an entity shall disclose:

(a) Details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(b) The carrying amount of the loans payable in default at the end of the reporting period; and

(c) Whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorized for issue.

23. If, during the period, there were breaches of loan agreement terms other than those described in paragraph 22, an entity shall disclose the same information as required by paragraph 22 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

Statement of Financial Performance

Items of Revenue, Expense, Gains, or Losses

24. An entity shall disclose the following items of revenue, expense, gains, or losses either in the statement of financial performance or in the notes:

(a) Net gains or net losses on:

(i) Financial assets or financial liabilities measured at fair value through surplus or deficit, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with paragraph 152 of IPSAS 41, and those on financial assets or financial liabilities that are mandatorily measured at fair value through surplus or deficit in accordance with IPSAS 41 (e.g., financial liabilities that meet the definition of held for trading in IPSAS 41). For financial liabilities designated as at fair value through surplus or deficit, an entity shall show separately the amount of gain or loss recognized in net assets/equity and the amount recognized in surplus or deficit;

(ii) [Deleted]

(iii) [Deleted]

(iv) [Deleted]

(v) Financial liabilities measured at amortized cost;

(vi) Financial assets measured at amortized cost;

(vii) Investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41; and

(viii) Financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41, showing separately the amount of gain or loss recognized in net assets/equity during the period and the amount reclassified upon derecognition from accumulated net assets/equity to surplus or deficit for the period.

(b) Total interest revenue and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are measured at amortized cost or that are measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41 (showing these amounts separately); or financial liabilities that are not measured at fair value through surplus or deficit;

(c) Fee revenue and expense (other than amounts included in determining the effective interest rate) arising from:

(i) Financial assets or financial liabilities that are not at fair value through surplus or deficit; and

(ii) Trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;

(d) [Deleted]

(e) [Deleted]

24A. An entity shall disclose an analysis of the gain or loss recognized in the statement of financial performance arising from the derecognition of financial assets measured at amortized cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognizing those financial assets.

Other Disclosures

Accounting Policies

25. In accordance with paragraph 132 of IPSAS 1, an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Hedge Accounting

25A. An entity shall apply the disclosure requirements in paragraphs 25B–28F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

(a) An entity's risk management strategy and how it is applied to manage risk;

(b) How the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

(c) The effect that hedge accounting has had on the entity's statement of financial position, statement of financial performance and statement of changes in net assets/equity.

25B. An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

25C. When paragraphs 26A–28F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

25D. To meet the objectives in paragraph 25A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this Standard.

26. [Deleted]

The Risk Management Strategy

26A. An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):

(a) How each risk arises.

(b) How the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.

(c) The extent of risk exposures that the entity manages.

26B. To meet the requirements in paragraph 26A, the information should include (but is not limited to) a description of:

(a) The hedging instruments that are used (and how they are used) to hedge risk exposures;

(b) How the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and

(c) How the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.

26C. When an entity designates a specific risk component as a hedged item (see paragraph 128 of IPSAS 41) it shall provide, in addition to the disclosures required by paragraphs 26A and 26B, qualitative or quantitative information about:

(a) How the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and

(b) How the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 percent of the changes in fair value of the item as a whole).

The Amount, Timing and Uncertainty of Future Cash Flows

27. [Deleted]

27A. Unless exempted by paragraph 27C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

27B. To meet the requirement in paragraph 27A, an entity shall provide a breakdown that discloses:

(a) A profile of the timing of the nominal amount of the hedging instrument; and

(b) If applicable, the average price or rate (for example strike or forward prices etc.) of the hedging instrument.

27C. In situations in which an entity frequently resets (i.e., discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (i.e., the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long—such as in the example in paragraph AG317(b) of IPSAS 41) the entity:

(a) Is exempt from providing the disclosures required by paragraphs 27A and 27B.

(b) Shall disclose:

(i) Information about what the ultimate risk management strategy is in relation to those hedging relationships;

(ii) A description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and

(iii) An indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.

27D. An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.

27E. If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.

27F. For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

The Effects of Hedge Accounting on Financial Position and Performance

28. [Deleted]

28A. An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):

(a) The carrying amount of the hedging instruments (financial assets separately from financial liabilities);

(b) The line item in the statement of financial position that includes the hedging instrument;

(c) The change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness for the period; and

(d) The nominal amounts (including quantities such as tonnes or cubic meters) of the hedging instruments.

28B. An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:

(a) For fair value hedges:

(i) The carrying amount of the hedged item recognized in the statement of financial position (presenting assets separately from liabilities);

(ii) The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognized in the statement of financial position (presenting assets separately from liabilities);

(iii) The line item in the statement of financial position that includes the hedged item;

(iv) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period; and

(v) The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 139 of IPSAS 41.

(b) For cash flow hedges and hedges of a net investment in a foreign operation:

(i) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period (i.e., for cash flow hedges the change in value used to determine the recognized hedge ineffectiveness in accordance with paragraph 140(c) of IPSAS 41);

(ii) The balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 140 and 142(a) of IPSAS 41; and

(iii) The balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

28C. An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

(a) For fair value hedges:

(i) Hedge ineffectiveness—i.e., the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognized in surplus or deficit (or net assets/equity for hedges of an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106 of IPSAS 41); and

(ii) The line item in the statement of financial performance that includes the recognized hedge ineffectiveness.

(b) For cash flow hedges and hedges of a net investment in a foreign operation:

(i) Hedging gains or losses of the reporting period that were recognized in net assets/equity;

(ii) Hedge ineffectiveness recognized in surplus or deficit;

(iii) The line item in the statement of financial performance that includes the recognized hedge ineffectiveness;

(iv) The amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into surplus or deficit as a reclassification adjustment (see IPSAS 1) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected surplus or deficit);

(v) The line item in the statement of financial performance that includes the reclassification adjustment (see IPSAS 1); and

(vi) For hedges of net positions, the hedging gains or losses recognized in a separate line item in the statement of financial performance (see paragraph 149 of IPSAS 41).

28D. When the volume of hedging relationships to which the exemption in paragraph 27C applies is unrepresentative of normal volumes during the period (i.e., the volume at the reporting date does not reflect the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.

28E. An entity shall provide a reconciliation of each component of net assets/equity and an analysis of net assets/equity in accordance with IPSAS 1 that, taken together:

(a) Differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 28C(b)(i) and (b)(iv) as well as the amounts accounted for in accordance with paragraph 140(d)(i) and (iii) of IPSAS 41;

(b) Differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 144 of IPSAS 41; and

(c) Differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with paragraph 145 of IPSAS 41.

28F. An entity shall disclose the information required in paragraph 28E separately by risk category. This disaggregation by risk may be provided in the notes to the financial statements.

Option to Designate a Credit Exposure as Measured at Fair Value Through Surplus or Deficit

28G. If an entity designated a financial instrument, or a proportion of it, as measured at fair value through surplus or deficit because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

(a) For credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through surplus or deficit in accordance with paragraph 152 of IPSAS 41, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;

(b) The gain or loss recognized in surplus or deficit on designation of a financial instrument, or a proportion of it, as measured at fair value through surplus or deficit in accordance with paragraph 152 of IPSAS 41; and

(c) On discontinuation of measuring a financial instrument, or a proportion of it, at fair value through surplus or deficit, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 155 of IPSAS 41 and the related nominal or principal amount (except for providing comparative information in accordance with IPSAS 1, an entity does not need to continue this disclosure in subsequent periods).

Uncertainty Arising from Interest Rate Benchmark Reform

28H. For hedging relationships to which an entity applies the exceptions set out in paragraphs 155D–155L of IPSAS 41 or paragraphs 113D–113N of IPSAS 29, *Financial Instruments: Recognition and Measurement* an entity shall disclose:

(a) The significant interest rate benchmarks to which the entity's hedging relationships are exposed;

(b) The extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;

(c) How the entity is managing the process to transition to alternative benchmark rates;

(d) A description of significant assumptions or judgments the entity made in applying these paragraphs (for example, assumptions or judgments about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and

(e) The nominal amount of the hedging instruments in those hedging relationships.

Additional Disclosures Related to Interest Rate Benchmark Reform—Phase 2

28I. To enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy, an entity shall disclose information about:

(a) The nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform, and how the entity manages these risks; and

(b) The entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing the transition.

28J. To meet the objectives in paragraph 28I, an entity shall disclose:

(a) How the entity is managing the transition to alternative benchmark rates, its progress at the reporting date and the risks to which it is exposed arising from financial instruments because of the transition;

(b) Disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period, showing separately:

(i) Non-derivative financial assets;

(ii) Non-derivative financial liabilities; and

(iii) Derivatives; and

(c) If the risks identified in paragraph 28J(a) have resulted in changes to an entity's risk management strategy (see paragraph 26A), a description of these changes.

Fair Value

29. Except as set out in paragraph 35 for each class of financial assets and financial liabilities (see paragraph 9), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

30. In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.

30A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For financial instruments that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

30B. To meet the objectives in paragraph 30A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 30A, an entity shall disclose additional information necessary to meet those objectives.

30C. To meet the objectives in paragraph 30A, an entity shall disclose, at a minimum, the following information for each class of financial instruments (see paragraph 30D for information on determining appropriate classes of financial instruments) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of financial instruments are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of financial instruments are those that this Standard requires or permits in the statement of financial position in particular circumstances;

(b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For financial instruments held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;

(d) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized;

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately); and

(iv) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(f) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those financial instruments held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(g) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(h) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

(i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d); and

(ii) For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.

30D. An entity shall determine the appropriate disaggregation of financial instruments on the basis of the following:

(a) The nature, characteristics and risks of the financial instruments; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of financial instruments for which disclosures about fair value measurements should be provided requires judgment. Financial instruments will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for a financial instrument, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

30E. An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 30C(c) and (e)(iv). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

(a) The date of the event or change in circumstances that caused the transfer;

(b) The beginning of the reporting period; and

(c) The end of the reporting period.

30F. If an entity makes an accounting policy decision to use the exception in paragraph AG143O of IPSAS 41, it shall disclose that fact.

30G. For each class of financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 30C(b), (d) and (h). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 30C(d). For such financial instruments, an entity does not need to provide the other disclosures required by this Standard.

30H. For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.

30I. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

31. [Deleted]

32. [Deleted]

33. [Deleted]

34. In some cases, an entity does not recognize a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) nor based on a measurement technique that uses only data from observable markets (see paragraph AG117 of IPSAS 41). In such cases, the entity shall disclose by class of financial asset or financial liability:

(a) Its accounting policy for recognizing in surplus or deficit the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph AG117(b) of IPSAS 41);

(b) The aggregate difference yet to be recognized in surplus or deficit at the beginning and end of the period and a reconciliation of changes in the balance of this difference; and

(c) Why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

35. Disclosures of fair value are not required:

(a) When the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

(b) [Deleted]

(c) For a contract containing a discretionary participation feature if the fair value of that feature cannot be measured reliably; or

(d) For lease liabilities.

36. In the case described in paragraph 35(c), an entity shall disclose information to help users of the financial statements make their own judgments about the extent of possible differences between the carrying amount of those contracts and their fair value, including:

(a) The fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;

(b) A description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;

(c) Information about the market for the instruments;

(d) Information about whether and how the entity intends to dispose of the financial instruments; and

(e) If financial instruments whose fair value previously could not be reliably measured are derecognized, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognized.

Concessionary Loans

37. Concessionary loans are granted by entities on below market terms. Examples of concessionary loans that commonly have below market terms include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. For concessionary loans granted and measured at amortized cost in accordance with paragraph 40 of IPSAS 41, an entity shall disclose:

(a) A reconciliation between the opening and closing carrying amounts of the loans, including:

(i) Nominal value of new loans granted during the period;

(ii) The fair value adjustment on initial recognition;

(iii) Loans repaid during the period;

(iv) Impairment losses recognized;

(v) Any increase during the period in the discounted amount arising from the passage of time; and

(vi) Other changes.

(b) Nominal value of the loans at the end of the period;

(c) The purpose and terms of the various types of loans; and

(d) Valuation assumptions.

37A. For concessionary loans measured at fair value in accordance with paragraph 41 or 43 of IPSAS 41 an entity shall disclose:

(a) A reconciliation between the opening and closing carrying amounts of the loans, including:

(i) Nominal value of new loans granted during the period;

(ii) The fair value adjustment on initial recognition;

(iii) Loans repaid during the period;

(iv) The fair value adjustment during the period (separate from initial recognition); and

(v) Other changes.

(b) Nominal value of the loans at the end of the period;

(c) The purpose and terms of the various types of loans, including the nature of the concession; and

(d) Valuation assumptions.

Nature and Extent of Risks Arising from Financial Instruments

38. **An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.**

39. The disclosures required by paragraphs 40–49 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk, and market risk.

39A. Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

Qualitative Disclosures

40. For each type of risk arising from financial instruments, an entity shall disclose:

(a) The exposures to risk and how they arise;

(b) Its objectives, policies, and processes for managing the risk and the methods used to measure the risk; and

(c) Any changes in (a) or (b) from the previous period.

Quantitative Disclosures

41. For each type of risk arising from financial instruments, an entity shall disclose:

(a) Summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IPSAS 20, *Related Party Disclosures*), for example, the entity's governing body or chief executive officer.

(b) The disclosures required by paragraphs 43–49, to the extent not provided in accordance with (a).

(c) Concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

42. If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit Risk

Scope and Objectives

42A. An entity shall apply the disclosure requirements in paragraphs 42F–42N to financial instruments to which the impairment requirements in IPSAS 41 are applied. However:

(a) For receivables that result from revenue transactions that are within the scope of IPSAS 47 and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognized in accordance with paragraph 87 of IPSAS 41, if those financial assets are modified while more than 30 days past due; and

(b) Paragraph 42K(b) does not apply to lease receivables.

42B. The credit risk disclosures made in accordance with paragraphs 42F–42N shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

(a) Information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses;

(b) Quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and

(c) Information about an entity's credit risk exposure (i.e., the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations.

42C. An entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

42D. To meet the objectives in paragraph 42B, an entity shall (except as otherwise specified) consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.

42E. If the disclosures provided in accordance with paragraphs 42F–42N are insufficient to meet the objectives in paragraph 42B, an entity shall disclose additional information that is necessary to meet those objectives.

The Credit Risk Management Practices

42F. An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate:

(a) How an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how:

(i) Financial instruments are considered to have low credit risk in accordance with paragraph 82 of IPSAS 41, including the classes of financial instruments to which it applies; and

(ii) The presumption in paragraph 83 of IPSAS 41, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted;

(b) An entity's definitions of default, including the reasons for selecting those definitions;

(c) How the instruments were grouped if expected credit losses were measured on a collective basis;

(d) How an entity determined that financial assets are credit-impaired financial assets;

(e) An entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity; and

(f) How the requirements in paragraph 84 of IPSAS 41 for the modification of contractual cash flows of financial assets have been applied, including how an entity:

(i) Determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with paragraph 77 of IPSAS 41; and

(ii) Monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with paragraph 75 of IPSAS 41.

42G. An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in paragraphs 73–93 of IPSAS 41. For this purpose an entity shall disclose:

(a) The basis of inputs and assumptions and the estimation techniques used to:

(i) Measure the 12-month and lifetime expected credit losses;

(ii) Determine whether the credit risk of financial instruments has increased significantly since initial recognition; and

(iii) Determine whether a financial asset is a credit-impaired financial asset.

(b) How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and

(c) Changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

Quantitative and Qualitative Information about Amounts Arising from Expected Credit Losses

42H. To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

(a) The loss allowance measured at an amount equal to 12-month expected credit losses;

(b) The loss allowance measured at an amount equal to lifetime expected credit losses for:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from revenue transactions that are within the scope of IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

(c) Financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognized during the reporting period.

42I. To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 42H, an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 42H(a)–(c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:

(a) Changes because of financial instruments originated or acquired during the reporting period;

(b) The modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with IPSAS 41;

(c) Changes because of financial instruments that were derecognized (including those that were written-off) during the reporting period; and

(d) Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.

42J. To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of expected credit losses, an entity shall disclose:

(a) The amortized cost before the modification and the net modification gain or loss recognized for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses; and

(b) The gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses.

42K. To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument:

(a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g., netting agreements that do not qualify for offset in accordance with IPSAS 28).

(b) A narrative description of collateral held as security and other credit enhancements, including:

  (i) A description of the nature and quality of the collateral held;

  (ii) An explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and

  (iii) Information about financial instruments for which an entity has not recognized a loss allowance because of the collateral.

(c) Quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date.

42L. An entity shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.

Credit Risk Exposure

42M. To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) For which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from revenue transactions that are within the scope of IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

(c) That are purchased or originated credit-impaired financial assets.

42N. For receivables that result from revenue transactions that are within the scope of IPSAS 47 or lease receivables to which an entity applies paragraph 87 of IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of IPSAS 41).

43. For all financial instruments within the scope of this Standard, but to which the impairment requirements in IPSAS 41 are not applied, an entity shall disclose by class of financial instrument:

(a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g., netting agreements that do not qualify for offset in accordance with IPSAS 28); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk; and

(b) A description of collateral held as security and other credit enhancements, and their financial effect (e.g., quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).

(c) [Deleted]

(d) [Deleted]

44. [Deleted]

Collateral and Other Credit Enhancements Obtained

45. When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g., guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose for such assets held at the reporting date:

(a) The nature and carrying amount of the assets; and

(b) When the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity Risk

46. An entity shall disclose:

(a) A maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) A maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph AG14).

(c) A description of how it manages the liquidity risk inherent in (a) and (b).

Market Risk

Sensitivity Analysis

47. Unless an entity complies with paragraph 48, it shall disclose:

(a) A sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how surplus or deficit and net assets/equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) The methods and assumptions used in preparing the sensitivity analysis; and

(c) Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

48. If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g., interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 47. The entity shall also disclose:

(a) An explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and

(b) An explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Other Market Risk Disclosures

49. When the sensitivity analyses disclosed in accordance with paragraph 47 or 48 are unrepresentative of a risk inherent in a financial instrument (e.g., because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

Transfers of Financial Assets

49A. The disclosure requirements in paragraphs 49B–49H relating to transfers of financial assets supplement the other disclosure requirements of this Standard. An entity shall present the disclosures required by paragraphs 49B–49H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognized and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

(a) Transfers the contractual rights to receive the cash flows of that financial asset; or

(b) Retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

49B. An entity shall disclose information that enables users of its financial statements:

(a) To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and

(b) To evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

49C. For the purposes of applying the disclosure requirements in paragraphs 49E–49H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of applying the disclosure requirements in paragraphs 49E–49H, the following do not constitute continuing involvement:

(a) Normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;

(b) Forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or

(c) An arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 16(a)–(c) of IPSAS 41 are met.

Transferred Financial Assets that are Not Derecognized in Their Entirety

49D. An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 49B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognized in their entirety:

(a) The nature of the transferred assets.

(b) The nature of the risks and rewards of ownership to which the entity is exposed.

(c) A description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.

(d) When the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities).

(e) When the entity continues to recognize all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.

(f) When the entity continues to recognize the assets to the extent of its continuing involvement (see paragraphs 17(c)(ii) and 27 of IPSAS 41), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognize, and the carrying amount of the associated liabilities.

Transferred Financial Assets that are Derecognized in Their Entirety

49E. To meet the objectives set out in paragraph 49B(b), when an entity derecognizes transferred financial assets in their entirety (see paragraph 17(a) and 17(c)(i) of IPSAS 41) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

(a) The carrying amount of the assets and liabilities that are recognized in the entity's statement of financial position and represent the entity's continuing involvement in the derecognized financial assets, and the line items in which the carrying amount of those assets and liabilities are recognized.

(b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognized financial assets.

(c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognized financial assets, and information showing how the maximum exposure to loss is determined.

(d) The undiscounted cash outflows that would or may be required to repurchase derecognized financial assets (e.g., the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.

(e) A maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognized financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.

(f) Qualitative information that explains and supports the quantitative disclosures required in (a)–(e).

49F. An entity may aggregate the information required by paragraph 49E in respect of a particular asset if the entity has more than one type of continuing involvement in that derecognized financial asset, and report it under one type of continuing involvement.

49G. In addition, an entity shall disclose for each type of continuing involvement:

(a) The gain or loss recognized at the date of transfer of the assets.

(b) Revenue and expenses recognized, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognized financial assets (e.g., fair value changes in derivative instruments).

(c) If the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (e.g., if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):

(i) When the greatest transfer activity took place within that reporting period (e.g., the last five days before the end of the reporting period),

(ii) The amount (e.g., related gains or losses) recognized from transfer activity in that part of the reporting period, and

(iii) The total amount of proceeds from transfer activity in that part of the reporting period.

An entity shall provide this information for each period for which a statement of net assets/equity is presented.

Supplementary Information

49H. An entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph 49B.

Initial Application of IPSAS 41

49I. In the reporting period that includes the date of initial application of IPSAS 41, the entity shall disclose the following information for each class of financial assets and financial liabilities as at the date of initial application:

(a) The original measurement category and carrying amount determined in accordance with IPSAS 29;

(b) The new measurement category and carrying amount determined in accordance with IPSAS 41;

(c) The amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through surplus or deficit but are no longer so designated, distinguishing between those that IPSAS 41 requires an entity to reclassify and those that an entity elects to reclassify at the date of initial application.

49J. In the reporting period that includes the date of initial application of IPSAS 41, an entity shall disclose qualitative information to enable users to understand:

(a) How it applied the classification requirements in IPSAS 41 to those financial assets whose classification has changed as a result of applying IPSAS 41.

(b) The reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through surplus or deficit at the date of initial application.

49K. In the reporting period that an entity first applies the classification and measurement requirements for financial assets in IPSAS 41 (i.e., when the entity transitions from IPSAS 29 to IPSAS 41 for financial assets), it shall present the disclosures set out in paragraphs 49L–49O of this Standard as required by paragraph 173 of IPSAS 41.

49L. When required by paragraph 49K, an entity shall disclose the changes in the classifications of financial assets and financial liabilities as at the date of initial application of IPSAS 41, showing separately:

(a) The changes in the carrying amounts on the basis of their measurement categories in accordance with IPSAS 29 (i.e., not resulting from a change in measurement attribute on transition to IPSAS 41); and

(b) The changes in the carrying amounts arising from a change in measurement attribute on transition to IPSAS 41.

The disclosures in this paragraph need not be made after the reporting period in which the entity initially applies the classification and measurement requirements for financial assets in IPSAS 41.

49M. When required by paragraph 49K, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortized cost and, in the case of financial assets, that have been reclassified out of fair value through surplus or deficit so that they are measured at fair value through net assets/equity, as a result of the transition to IPSAS 41:

(a) The fair value of the financial assets or financial liabilities at the end of the reporting period; and

(b) The fair value gain or loss that would have been recognized in surplus or deficit or net assets/equity during the reporting period if the financial assets or financial liabilities had not been reclassified. The disclosures in this paragraph need not be made after the reporting period in which the entity initially applies the classification and measurement requirements for financial assets in IPSAS 41.

49N. When required by paragraph 49K, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified out of the fair value through surplus or deficit category as a result of the transition to IPSAS 41:

(a) The effective interest rate determined on the date of initial application; and

(b) The interest revenue or expense recognized.

If an entity treats the fair value of a financial asset or a financial liability as the new gross carrying amount at the date of initial application (see paragraph 168 of IPSAS 41), the disclosures in this paragraph shall be made for each reporting period until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period in which the entity initially applies the classification and measurement requirements for financial assets in IPSAS 41.

49O. When an entity presents the disclosures set out in paragraphs 49K–49N, those disclosures, and the disclosures in paragraph 29 of this Standard, must permit reconciliation between:

(a) The measurement categories presented in accordance with IPSAS 29 and IPSAS 41; and

(b) The class of financial instrument as at the date of initial application.

49P. On the date of initial application of paragraphs 73–93 of IPSAS 41, an entity is required to disclose information that would permit the reconciliation of the ending impairment allowances in accordance with IPSAS 29 and the provisions in accordance with IPSAS 19 to the opening loss allowances determined in accordance with IPSAS 41. For financial assets, this disclosure shall be provided by the related financial assets' measurement categories in accordance with IPSAS 29 and IPSAS 41, and shall show separately the effect of the changes in the measurement category on the loss allowance at that date.

49Q. In the reporting period that includes the date of initial application of IPSAS 41, an entity is not required to disclose the line item amounts that would have been reported in accordance with the classification and measurement requirements (which includes the requirements related to amortized cost measurement of financial assets and impairment in paragraphs 69–72 and 73–93 of IPSAS 41) of:

(a) IPSAS 41 for prior periods; and

(b) IPSAS 29 for the current period.

49R. In accordance with paragraph 161 of IPSAS 41, if it is impracticable (as defined in IPSAS 3) at the date of initial application of IPSAS 41 for an entity to assess a modified time value of money element in accordance with paragraphs AG68–AG70 of IPSAS 41 based on the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs AG68–AG70 of IPSAS 41. An entity shall disclose the carrying amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs AG68–AG70 of IPSAS 41 until those financial assets are derecognized.

49S. In accordance with paragraph 162 of IPSAS 41, if it is impracticable (as defined in IPSAS 3) at the date of initial application for an entity to assess whether the fair value of a prepayment feature was insignificant in accordance with paragraphs AG74(c) of IPSAS 41 based on the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the exception for prepayment features in paragraph AG74 of IPSAS 41. An entity shall disclose the carrying amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the exception for prepayment features in paragraph AG74 of IPSAS 41 until those financial assets are derecognized.

Effective Date and Transition

50. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2013, it shall disclose that fact.**

51. **An entity shall not apply this Standard before January 1, 2013, unless it also applies IPSAS 28 and IPSAS 29.**

52. If an entity applies this Standard for annual periods beginning before January 1, 2013, it need not present comparative information for the disclosures required by paragraphs 38–49 about the nature and extent of risks arising from financial instruments.

52A. **Paragraph 53 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

52B. **IPSAS 35, *Consolidated Financial Statements*, IPSAS 37, *Joint Arrangements*, and IPSAS 38, *Disclosures of Interests in Other Entities,* issued in January 2015, amended paragraphs 3(a) and AG6. An entity shall apply that amendment when it applies IPSAS 35, IPSAS 37 and IPSAS 38.**

52C. **Paragraph AG7 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

52D. **Paragraphs 6 and 7 were deleted by *The Applicability of IPSAS* , issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

52E. **Paragraph 3 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

52F. **Paragraphs 2, 3, 4, 5, 8, 11, 12, 13, 14, 18, 24, 34, 35, 36, 37, 41, 43, 45, AG1, AG5, AG9, AG10, AG24, and AG29 were amended, paragraphs 16, 17, 20, 26, 27, 28 and 44 were deleted and several headings and paragraphs 5A, 13A, 14A, 14B, 15A, 15B, 15C, 17A, 17B, 17C, 17D, 17E, 17F, 20A, 24A, 25A, 25B, 25C, 25D, 26A, 26B, 26C, 27A, 27B, 27C, 27D, 27E, 27F, 28A, 28B, 28C, 28D, 28E, 28F, 28G, 37A, 39A, 42A, 42B, 42C, 42D, 42E, 42F, 42G, 42H, 42I, 42J, 42K, 42L, 42M, 42N, 49A, 49B, 49C, 49D, 49E, 49F, 49G, 49H, 49I, 49J, 49K, 49L, 49M, 49N, 49O, 49P, 49Q, 49R, 49S, 52C, 52D, AG8A, AG8B, AG8C, AG8D, AG8E, AG8F, AG8G, AG8H, AG8I, AG8J, AG31, AG32, AG32A, AG33, AG34, AG35, AG36, AG37, AG38, AG39, AG40, AG41, AG42, AG43, AG44, AG45, AG46, AG47, AG48, AG49, AG50, AG51, AG52, AG53, AG54 and AG55 are added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

52G. **Paragraph AG5 was amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2023, it shall disclose that fact and apply IPSAS 41 at the same time.**

52H. **Paragraphs 28H and 52I were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments when it applies the *Interest Rate Benchmark Reform* amendments to IPSAS 29 or IPSAS 41.**

52I. In the reporting period in which an entity first applies *Interest Rate Benchmark Reform amendments*, an entity is not required to present the quantitative information required by paragraph 33(f) of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

52J. **Paragraphs 28I–28J and 52K were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments when it applies the *Interest Rate Benchmark Reform—Phase 2* amendments to IPSAS 29 or IPSAS 41.**

52K. In the reporting period in which an entity first applies *Interest Rate Benchmark Reform—Phase 2* amendments an entity is not required to present the quantitative information required by paragraph 33(f) of IPSAS 3.

52L. **Paragraphs 35 and AG16 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

52M. **Paragraphs 8 and 34 were amended, paragraphs 30A–30I were added, and paragraphs 31–33 were deleted by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

52N. **Paragraphs 5A, 42A, 42H, 42M, and 42N were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

53. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* 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.

Withdrawal and Replacement of IPSAS 15 (2001)

54. This Standard and IPSAS 28 supersede IPSAS 15, *Financial Instruments: Disclosure and Presentation* issued in 2001. IPSAS 15 remains applicable until IPSAS 28 and IPSAS 30 are applied or become effective, whichever is earlier.

Appendix A

Application Guidance

This appendix is an integral part of IPSAS 30.

Classes of Financial Instruments and Level of Disclosure (paragraph 9)

AG1. Paragraph 9 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 9 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IPSAS 41 (which determine how financial instruments are measured and where changes in fair value are recognized).

AG2. In determining classes of financial instrument, an entity shall, at a minimum:

(a) Distinguish instruments measured at amortized cost from those measured at fair value.

(b) Treat as a separate class or classes those financial instruments outside the scope of this Standard.

AG3. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

AG4. [Deleted]

Other Disclosure—Accounting Policies (paragraph 25)

AG5. Paragraph 25 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

(a) For financial liabilities designated as at fair value through surplus or deficit:

(i) The nature of the financial liabilities the entity has designated as at fair value through surplus or deficit;

(ii) The criteria for so designating such financial liabilities on initial recognition; and

(iii) How the entity has satisfied the conditions in paragraph 46, of IPSAS 41 for such designation.

(b) For financial assets designated as measured at fair value through surplus or deficit:

(i) The nature of the financial assets the entity has designated as measured at fair value through surplus or deficit; and

(ii) How the entity has satisfied the criteria in paragraph 44 of IPSAS 41 for such designation.

(c) Whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 11 of IPSAS 41).

(d) [Deleted]

(e) How net gains or net losses on each category of financial instrument are determined (see paragraph 24(a)), for example, whether the net gains or net losses on items at fair value through surplus or deficit include interest or revenue from dividends or similar distributions.

(f) [Deleted]

(g) [Deleted]

(h) For financial guarantee contracts issued through a non-exchange transaction, where no fair value can be determined and on initial recognition the financial guarantee contract is measured at the amount of the loss allowance in accordance with paragraph AG136 of IPSAS 41, disclosure of the circumstances that result in fair value not being determinable.

Paragraph 137 of IPSAS 1 also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49)

AG6. The disclosures required by paragraphs 38–49 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete. The use of such cross-referencing may be subject to jurisdictional restrictions.

Quantitative Disclosures (paragraph 41)

AG7. AG7. Paragraph 41(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and faithfully representative information. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* discusses relevance and faithful representation.

AG8. AG8. Paragraph 41(c) requires disclosures about concentrations of risk. Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgment taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:

(a) A description of how management determines concentrations;

(b) A description of the shared characteristic that identifies each concentration (e.g., counterparty, geographical area, currency, or market); and

(c) The amount of the risk exposure associated with all financial instruments sharing that characteristic.

Credit Risk Management Practices (paragraphs 42F–42G)

AG8A. Paragraph 42F(b) requires the disclosure of information about how an entity has defined default for different financial instruments and the reasons for selecting those definitions. In accordance with paragraph 81 of IPSAS 41, the determination of whether lifetime expected credit losses should be recognized is based on the increase in the risk of a default occurring since initial recognition. Information about an entity's definitions of default that will assist users of financial statements in understanding how an entity has applied the expected credit loss requirements in IPSAS 41 may include:

(a) The qualitative and quantitative factors considered in defining default;

(b) Whether different definitions have been applied to different types of financial instruments; and

(c) Assumptions about the cure rate (i.e., the number of financial assets that return to a performing status) after a default occurred on the financial asset.

AG8B. To assist users of financial statements in evaluating an entity's restructuring and modification policies, paragraph 42F(f)(i) requires the disclosure of information about how an entity monitors the extent to which the loss allowance on financial assets previously disclosed in accordance with paragraph 42F(f)(i) are subsequently measured at an amount equal to lifetime expected credit losses in accordance with paragraph 75 of IPSAS 41. Quantitative information that will assist users in understanding the subsequent increase in credit risk of modified financial assets may include information about modified financial assets meeting the criteria in paragraph 42F(f)(i) for which the loss allowance has reverted to being measured at an amount equal to lifetime expected credit losses (i.e., a deterioration rate).

AG8C. Paragraph 42G(a) requires the disclosure of information about the basis of inputs and assumptions and the estimation techniques used to apply the impairment requirements in IPSAS 41. An entity's assumptions and inputs used to measure expected credit losses or determine the extent of increases in credit risk since initial recognition may include information obtained from internal historical information or rating reports and assumptions about the expected life of financial instruments and the timing of the sale of collateral.

Changes in the Loss Allowance (paragraph 42H)

AG8D. In accordance with paragraph 42H, an entity is required to explain the reasons for the changes in the loss allowance during the period. In addition to the reconciliation from the opening balance to the closing balance of the loss allowance, it may be necessary to provide a narrative explanation of the changes. This narrative explanation may include an analysis of the reasons for changes in the loss allowance during the period, including:

(a) The portfolio composition;

(b) The volume of financial instruments purchased or originated; and

(c) The severity of the expected credit losses

AG8E. For loan commitments and financial guarantee contracts the loss allowance is recognized as a provision. An entity should disclose information about the changes in the loss allowance for financial assets separately from those for loan commitments and financial guarantee contracts. However, if a financial instrument includes both a loan (i.e., financial asset) and an undrawn commitment (i.e., loan commitment) component and the entity cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment should be recognized together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognized as a provision.

Collateral (paragraph 42K)

AG8F. Paragraph 42K requires the disclosure of information that will enable users of financial statements to understand the effect of collateral and other credit enhancements on the amount of expected credit losses. An entity is neither required to disclose information about the fair value of collateral and other credit enhancements nor is it required to quantify the exact value of the collateral that was included in the calculation of expected credit losses (i.e., the loss given default).

AG8G. A narrative description of collateral and its effect on amounts of expected credit losses might include information about:

(a) The main types of collateral held as security and other credit enhancements (examples of the latter being guarantees, credit derivatives and netting agreements that do not qualify for offset in accordance with IPSAS 28);

(b) The volume of collateral held and other credit enhancements and its significance in terms of the loss allowance;

(c) The policies and processes for valuing and managing collateral and other credit enhancements;

(d) The main types of counterparties to collateral and other credit enhancements and their creditworthiness; and

(e) Information about risk concentrations within the collateral and other credit enhancements.

Credit Risk Exposure (paragraphs 42M–42N)

AG8H. Paragraph 42M requires the disclosure of information about an entity's credit risk exposure and significant concentrations of credit risk at the reporting date. A concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. An entity should provide information that enables users of financial statements to understand whether there are groups or portfolios of financial instruments with particular features that could affect a large portion of that group of financial instruments such as concentration to particular risks. This could include, for example, loan-to-value groupings, geographical, industry or issuer-type concentrations.

AG8I. The number of credit risk rating grades used to disclose the information in accordance with paragraph 42M shall be consistent with the number that the entity reports to key management personnel for credit risk management purposes. If past due information is the only borrower-specific information available and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 82 of IPSAS 41, an entity shall provide an analysis by past due status for those financial assets.

AG8J. When an entity has measured expected credit losses on a collective basis, the entity may not be able to allocate the gross carrying amount of individual financial assets or the exposure to credit risk on loan commitments and financial guarantee contracts to the credit risk rating grades for which lifetime expected credit losses are recognized. In that case, an entity should apply the requirement in paragraph 42M to those financial instruments that can be directly allocated to a credit risk rating grade and disclose separately the gross carrying amount of financial instruments for which lifetime expected credit losses have been measured on a collective basis.

Maximum Credit Risk Exposure (paragraph 43(a))

AG9. Paragraphs 42K(a) and 43(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:

(a) Any amounts offset in accordance with IPSAS 28; and

(b) Any loss allowance recognized in accordance with IPSAS 41.

AG10. Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

(a) Granting loans to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.

(b) Entering into derivative contracts (e.g., foreign exchange contracts, interest rate swaps, and credit derivatives). When the resulting asset is measured at fair value, the maximum exposure to credit risk at the end of the reporting period will equal the carrying amount.

(c) Granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognized as a liability.

(d) Making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognized as a liability.

Quantitative Liquidity Risk Disclosures (paragraphs 41(a), and 46(a) and (b))

AG11. In accordance with paragraph 41(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:

(a) Occur significantly earlier than indicated in the data; or

(b) Be for significantly different amounts from those indicated in the data (e.g., for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement);

the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 46(a) or (b).

AG12. In preparing the maturity analyses required by paragraph 46(a) and (b), an entity uses its judgment to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

(a) Not later than one month;

(b) Later than one month and not later than three months;

(c) Later than three months and not later than one year; and

(d) Later than one year and not later than five years.

AG13. In complying with paragraph 46(a) and (b), an entity shall not separate an embedded derivative from a hybrid (combined) instrument. For such an instrument, an entity shall apply paragraph 46(a).

AG14. Paragraph 46(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:

(a) An interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.

(b) All loan commitments.

AG15. Paragraph 46(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:

(a) When a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (e.g., demand deposits) are included in the earliest time band.

(b) When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

(c) For issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

AG16. The contractual amounts disclosed in the maturity analyses as required by paragraph 46(a) and (b) are the contractual undiscounted cash flows, for example:

(a) Gross lease liabilities (before deducting finance charges);

(b) Prices specified in forward agreements to purchase financial assets for cash;

(c) Net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;

(d) Contractual amounts to be exchanged in a derivative financial instrument (e.g., a currency swap) for which gross cash flows are exchanged; and

(e) Gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

AG17. Paragraph 46(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 40(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (e.g., financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

AG18. Other factors that an entity might consider in providing the disclosure required in paragraph 46(c) include, but are not limited to, whether the entity:

(a) Has committed borrowing facilities (e.g., commercial paper facilities) or other lines of credit (e.g., stand-by credit facilities) that it can access to meet liquidity needs;

(b) Holds deposits at central banks to meet liquidity needs;

(c) Has very diverse funding sources;

(d) Has significant concentrations of liquidity risk in either its assets or its funding sources;

(e) Has internal control processes and contingency plans for managing liquidity risk;

(f) Has instruments that include accelerated repayment terms (e.g., on the downgrade of the entity's credit rating);

(g) Has instruments that could require the posting of collateral (e.g., margin calls for derivatives);

(h) Has instruments that allows the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or

(i) Has instruments that are subject to master netting agreements.

Market Risk—Sensitivity Analysis (paragraphs 47 and 48)

AG19. Paragraph 47(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. In accordance with paragraph AG3, an entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. For example:

(a) An entity that trades financial instruments might disclose this infor-mation separately for financial instruments held for trading and those not held for trading.

(b) An entity would not aggregate its exposure to market risks from areas of hyperinflation with its exposure to the same market risks from areas of very low inflation.

If an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.

AG20. Paragraph 47(a) requires the sensitivity analysis to show the effect on surplus or deficit and net assets/equity of reasonably possible changes in the relevant risk variable (e.g., prevailing market interest rates, currency rates, equity prices, or commodity prices). For this purpose:

(a) Entities are not required to determine what the surplus or deficit for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on surplus or deficit and net assets/equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on surplus or deficit (i.e., interest expense) for the current year if interest rates had varied by reasonably possible amounts.

(b) Entities are not required to disclose the effect on surplus or deficit and net assets/equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.

AG21. In determining what a reasonably possible change in the relevant risk variable is, an entity should consider:

(a) The economic environments in which it operates. A reasonably possible change should not include remote or “worst case” scenarios or “stress tests”. Moreover, if the rate of change in the underlying risk variable is stable, the entity need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are 5 percent and an entity determines that a fluctuation in interest rates of ±50 basis points is reasonably possible. It would disclose the effect on surplus or deficit and net assets/equity if interest rates were to change to 4.5 percent or 5.5 percent. In the next period, interest rates have increased to 5.5 percent. The entity continues to believe that interest rates may fluctuate by ±50 basis points (i.e., that the rate of change in interest rates is stable). The entity would disclose the effect on surplus or deficit and net assets/equity if interest rates were to change to 5 percent or 6 percent. The entity would not be required to revise its assessment that interest rates might reasonably fluctuate by ±50 basis points, unless there is evidence that interest rates have become significantly more volatile.

(b) The time frame over which it is making the assessment. The sensitivity analysis shall show the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.

AG22. Paragraph 48 permits an entity to use a sensitivity analysis that reflects inter-dependencies between risk variables, such as a value-at-risk methodology, if it uses this analysis to manage its exposure to financial risks. This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain. Such an entity might comply with paragraph 48(a) by disclosing the type of value-at-risk model used (e.g., whether the model relies on Monte Carlo simulations), an explanation about how the model works and the main assumptions (e.g., the holding period and confidence level). Entities might also disclose the historical observation period and weightings applied to observations within that period, an explanation of how options are dealt with in the calculations, and which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.

AG23. An entity shall provide sensitivity analyses for the whole of its operations, but may provide different types of sensitivity analysis for different classes of financial instruments.

Interest Rate Risk

AG24. Interest rate risk arises on interest-bearing financial instruments recognized in the statement of financial position (e.g., debt instruments acquired or issued) and on some financial instruments not recognized in the statement of financial position (e.g., some loan commitments).

Currency Risk

AG25. Currency risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency (i.e., in a currency other than the functional currency in which they are measured). For the purpose of this Standard, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

AG26. A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.

Other Price Risk

AG27. Other price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. To comply with paragraph 47, an entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable. For example, if an entity gives residual value guarantees that are financial instruments, the entity discloses an increase or decrease in the value of the assets to which the guarantee applies.

AG28. Two examples of financial instruments that give rise to equity price risk are (a) a holding of equities in another entity, and (b) an investment in a trust that in turn holds investments in equity instruments. Other examples include forward contracts and options to buy or sell specified quantities of an equity instrument and swaps that are indexed to equity prices. The fair values of such financial instruments are affected by changes in the market price of the underlying equity instruments.

AG29. In accordance with paragraph 47(a), the sensitivity of surplus or deficit (that arises, for example, from instruments measured at fair value through surplus or deficit) is disclosed separately from the sensitivity of net assets/equity (that arises, for example, from investments in equity instruments whose changes in fair value are presented in net assets/equity).

AG30. Financial instruments that an entity classifies as equity instruments are not remeasured. Neither surplus or deficit nor net assets/equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

Derecognition (paragraphs 49C–49H)

Continuing Involvement (paragraph 49C)

AG31. The assessment of continuing involvement in a transferred financial asset for the purposes of the disclosure requirements in paragraphs 49E–49H is made at the level of the reporting entity. For example, if a controlled entity transfers to an unrelated third party a financial asset in which the controlling entity of the controlled entity has continuing involvement, the controlled entity does not include the controlling entity's involvement in the assessment of whether it has continuing involvement in the transferred asset in its separate or individual financial statements (i.e., when the controlled entity is the reporting entity). However, a controlling entity would include its continuing involvement (or that of another member of the group) in a financial asset transferred by its controlling entity in determining whether it has continuing involvement in the transferred asset in its consolidated financial statements (i.e., when the reporting entity is the group).

AG32. An entity does not have a continuing involvement in a transferred financial asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. An entity does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future. The term 'payment' in this context does not include cash flows of the transferred financial asset that an entity collects and is required to remit to the transferee.

AG32A. When an entity transfers a financial asset, the entity may retain the right to service that financial asset for a fee that is included in, for example, a servicing contract. The entity assesses the servicing contract in accordance with the guidance in paragraphs 49C and AG32 to decide whether the entity has continuing involvement as a result of the servicing contract for the purposes of the disclosure requirements. For example, a servicer will have continuing involvement in the transferred financial asset for the purposes of the disclosure requirements if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset. Similarly, a servicer has continuing involvement for the purposes of the disclosure requirements if a fixed fee would not be paid in full because of non-performance of the transferred financial asset. In these examples, the servicer has an interest in the future performance of the transferred financial asset. This assessment is independent of whether the fee to be received is expected to compensate the entity adequately for performing the servicing.

AG33. Continuing involvement in a transferred financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the transferee or a third party entered into in connection with the transfer.

Transferred Financial Assets that are Not Derecognized in Their Entirety (paragraph 49D)

AG34. Paragraph 49D requires disclosures when part or all of the transferred financial assets do not qualify for derecognition. Those disclosures are required at each reporting date at which the entity continues to recognize the transferred financial assets, regardless of when the transfers occurred.

Types of Continuing Involvement (paragraphs 49E–49H)

AG35. Paragraphs 49E–49H require qualitative and quantitative disclosures for each type of continuing involvement in derecognized financial assets. An entity shall aggregate its continuing involvement into types that are representative of the entity's exposure to risks. For example, an entity may aggregate its continuing involvement by type of financial instrument (e.g., guarantees or call options) or by type of transfer (e.g., factoring of receivables, securitizations and securities lending).

Maturity Analysis for Undiscounted Cash Outflows to Repurchase Transferred Assets (paragraph 49E(e))

AG36. Paragraph 49E(e) requires an entity to disclose a maturity analysis of the undiscounted cash outflows to repurchase derecognized financial assets or other amounts payable to the transferee in respect of the derecognized financial assets, showing the remaining contractual maturities of the entity's continuing involvement. This analysis distinguishes cash flows that are required to be paid (e.g., forward contracts), cash flows that the entity may be required to pay (e.g., written put options) and cash flows that the entity might choose to pay (e.g., purchased call options).

AG37. An entity shall use its judgment to determine an appropriate number of time bands in preparing the maturity analysis required by paragraph 49E(e). For example, an entity might determine that the following maturity time bands are appropriate:

(a) Not later than one month;

(b) Later than one month and not later than three months;

(c) Later than three months and not later than six months;

(d) Later than six months and not later than one year;

(e) Later than one year and not later than three years;

(f) Later than three years and not later than five years; and

(g) More than five years.

AG38. If there is a range of possible maturities, the cash flows are included on the basis of the earliest date on which the entity can be required or is permitted to pay.

Qualitative Information (paragraph 49E(f))

AG39. The qualitative information required by paragraph 49E(f) includes a description of the derecognized financial assets and the nature and purpose of the continuing involvement retained after transferring those assets. It also includes a description of the risks to which an entity is exposed, including:

(a) A description of how the entity manages the risk inherent in its continuing involvement in the derecognized financial assets.

(b) Whether the entity is required to bear losses before other parties, and the ranking and amounts of losses borne by parties whose interests rank lower than the entity's interest in the asset (i.e., its continuing involvement in the asset).

(c) A description of any triggers associated with obligations to provide financial support or to repurchase a transferred financial asset.

Gain or Loss on Derecognition (paragraph 49G(a))

AG40. Paragraph 49G(a) requires an entity to disclose the gain or loss on derecognition relating to financial assets in which the entity has continuing involvement. The entity shall disclose if a gain or loss on derecognition arose because the fair values of the components of the previously recognized asset (i.e., the interest in the asset derecognized and the interest retained by the entity) were different from the fair value of the previously recognized asset as a whole. In that situation, the entity shall also disclose whether the fair value measurements included significant inputs that were not based on observable market data, as described in paragraph 32.

Supplementary Information (paragraph 49H)

AG41. The disclosures required in paragraphs 49D–49G may not be sufficient to meet the disclosure objectives in paragraph 49B. If this is the case, the entity shall disclose whatever additional information is necessary to meet the disclosure objectives. The entity shall decide, in the light of its circumstances, how much additional information it needs to provide to satisfy the information needs of users and how much emphasis it places on different aspects of the additional information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

Offsetting Financial Assets and Financial Liabilities (paragraphs 17A–17F)

Scope (paragraph 17A)

AG42. The disclosures in paragraphs 17B–17E are required for all recognized financial instruments that are set off in accordance with paragraph 47 of IPSAS 28. In addition, financial instruments are within the scope of the disclosure requirements in paragraphs 17B–17E if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with paragraph 47 of IPSAS 28.

AG43. The similar agreements referred to in paragraphs 17A and AG42 include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions referred to in paragraph AG31 include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements. Examples of financial instruments that are not within the scope of paragraph 17A are loans and customer deposits at the same institution (unless they are set off in the statement of financial position), and financial instruments that are subject only to a collateral agreement.

Disclosure of Quantitative Information for Recognized Financial Assets and Recognized Financial Liabilities within the Scope of Paragraph 17A (paragraph 17C)

AG44. Financial instruments disclosed in accordance with paragraph 17C may be subject to different measurement requirements (for example, a payable related to a repurchase agreement may be measured at amortized cost, while a derivative will be measured at fair value). An entity shall include instruments at their recognized amounts and describe any resulting measurement differences in the related disclosures.

Disclosure of the Gross Amounts of Recognized Financial Assets and Recognized Financial Liabilities within the Scope of Paragraph 17A (paragraph 17C(a))

AG45. The amounts required by paragraph 17C(a) relate to recognized financial instruments that are set off in accordance with paragraph 47 of IPSAS 28. The amounts required by paragraph 17C(a) also relate to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting criteria. However, the disclosures required by paragraph 17C(a) do not relate to any amounts recognized as a result of collateral agreements that do not meet the offsetting criteria in paragraph 47 of IPSAS 28. Instead, such amounts are required to be disclosed in accordance with paragraph 17C(d).

Disclosure of the Amounts that are Set Off in Accordance with the Criteria in Paragraph 47 of IPSAS 28 (paragraph 17C(b))

AG46. Paragraph 17C(b) requires that entities disclose the amounts set off in accordance with paragraph 47 of IPSAS 28 when determining the net amounts presented in the statement of financial position. The amounts of both the recognized financial assets and the recognized financial liabilities that are subject to set-off under the same arrangement will be disclosed in both the financial asset and financial liability disclosures. However, the amounts disclosed (in, for example, a table) are limited to the amounts that are subject to set-off. For example, an entity may have a recognized derivative asset and a recognized derivative liability that meet the offsetting criteria in paragraph 47 of IPSAS 28. If the gross amount of the derivative asset is larger than the gross amount of the derivative liability, the financial asset disclosure table will include the entire amount of the derivative asset (in accordance with paragraph 17C(a)) and the entire amount of the derivative liability (in accordance with paragraph 17C(b)). However, while the financial liability disclosure table will include the entire amount of the derivative liability (in accordance with paragraph 17C(a)), it will only include the amount of the derivative asset (in accordance with paragraph 17(b)) that is equal to the amount of the derivative liability.

Disclosure of the Net Amounts Presented in the Statement of Financial Position (paragraph 17C(c))

AG47. If an entity has instruments that meet the scope of these disclosures (as specified in paragraph 17A), but that do not meet the offsetting criteria in paragraph 47 of IPSAS 28, the amounts required to be disclosed by paragraph 17C(c) would equal the amounts required to be disclosed by paragraph 17C(a).

AG48. The amounts required to be disclosed by paragraph 17C(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity determines that the aggregation or disaggregation of individual financial statement line item amounts provides more relevant information, it must reconcile the aggregated or disaggregated amounts disclosed in paragraph 17C(c) back to the individual line item amounts presented in the statement of financial position.

Disclosure of the Amounts Subject to an Enforceable Master Netting Arrangement or Similar Agreement that are not Otherwise Included in Paragraph 17C(b) (paragraph 17C(d))

AG49. Paragraph 17C(d) requires that entities disclose amounts that are subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 17C(b). Paragraph 17C(d)(i) refers to amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in paragraph 47 of IPSAS 28 (for example, current rights of set-off that do not meet the criterion in paragraph 47(b) of IPSAS 28, or conditional rights of set-off that are enforceable and exercisable only in the event of default, or only in the event of insolvency or bankruptcy of any of the counterparties).

AG50. Paragraph 17C(d)(ii) refers to amounts related to financial collateral, including cash collateral, both received and pledged. An entity shall disclose the fair value of those financial instruments that have been pledged or received as collateral. The amounts disclosed in accordance with paragraph 17C(d)(ii) should relate to the actual collateral received or pledged and not to any resulting payables or receivables recognized to return or receive back such collateral.

Limits on the Amounts Disclosed in Paragraph 17C(d) (paragraph 17D)

AG51. When disclosing amounts in accordance with paragraph 17C(d), an entity must take into account the effects of over-collateralization by financial instrument. To do so, the entity must first deduct the amounts disclosed in accordance with paragraph 17C(d)(i) from the amount disclosed in accordance with paragraph 17C(c). The entity shall then limit the amounts disclosed in accordance with paragraph 17C(d)(ii) to the remaining amount in paragraph 17C(c) for the related financial instrument. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided in accordance with paragraph 17D.

Description of the Rights of Set-Off Subject to Enforceable Master Netting Arrangements and Similar Agreements (paragraph 17E)

AG52. An entity shall describe the types of rights of set-off and similar arrangements disclosed in accordance with paragraph 17C(d), including the nature of those rights. For example, an entity shall describe its conditional rights. For instruments subject to rights of set-off that are not contingent on a future event but that do not meet the remaining criteria in paragraph 47 of IPSAS 28, the entity shall describe the reason(s) why the criteria are not met. For any financial collateral received or pledged, the entity shall describe the terms of the collateral agreement (for example, when the collateral is restricted).

Disclosure by Type of Financial Instrument or by Counterparty

AG53. The quantitative disclosures required by paragraph 17C(a)–(e) may be grouped by type of financial instrument or transaction (for example, derivatives, repurchase and reverse repurchase agreements or securities borrowing and securities lending agreements).

AG54. Alternatively, an entity may group the quantitative disclosures required by paragraph 17C(a)–(c) by type of financial instrument, and the quantitative disclosures required by paragraph 17C(c)–(e) by counterparty. If an entity provides the required information by counterparty, the entity is not required to identify the counterparties by name. However, designation of counterparties (Counterparty A, Counterparty B, Counterparty C, etc.) shall remain consistent from year to year for the years presented to maintain comparability. Qualitative disclosures shall be considered so that further information can be given about the types of counterparties. When disclosure of the amounts in paragraph 17C(c)–(e) is provided by counterparty, amounts that are individually significant in terms of total counterparty amounts shall be separately disclosed and the remaining individually insignificant counterparty amounts shall be aggregated into one line item.

Other

AG55. The specific disclosures required by paragraphs 17C–17E are minimum requirements. To meet the objective in paragraph 17B an entity may need to supplement them with additional (qualitative) disclosures, depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of set-off, and their effect or potential effect on the entity's financial position.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 30.

Introduction

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 30, *Financial Instruments: Disclosures.* As this Standard is based on IFRS 7, *Financial Instruments: Disclosures* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 30 departs from the main requirements of IFRS 7.

BC2. This project on financial instruments is noted as a key part of the IPSASB's convergence program which aims to converge IPSAS with IFRS.

BC3. In developing this Standard, the IPSASB agreed to retain the existing text of IFRS 7 wherever consistent with existing IPSAS, except to deal with any public sector specific issues which result in adding or deleting disclosures.

BC4. In September 2007, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* which introduced a new component into the presentation of financial statements called "comprehensive income." As the IPSASB has not yet considered this, along with some of the other amendments proposed in IAS 1, those amendments have not been included in IPSAS 30.

Concessionary Loans

BC5. Concessionary loans are granted to or received by an entity on below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. Such loans are a feature of the public sector and are often made to implement a government's or other public sector entity's social policies. The intention of a concessionary loan at the outset is to provide or receive resources on below market terms. For this reason, the IPSASB concluded that more comprehensive disclosures are required by public sector entities for concessionary loans and has included additional disclosure requirements for such loans in paragraph 37.

Revision of IPSAS 30 as a result of the IPSASB's *The Applicability of IPSAS* , issued in April 2016

BC6. BC6. 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 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 30 as a result of *Improvements to IPSAS, 2019*

BC7. The amendments to paragraph AG5 update the guidance on accounting for financial guarantee contracts resulting from IPSAS 41, *Financial Instruments* which were inadvertently omitted when IPSAS 41 was issued. The IPSASB agreed to include these minor amendments in *Improvements to IPSAS, 2019*.

Revision of IPSAS 30 as a result of *COVID-19: Deferral of Effective Dates*

BC8. The IPSASB published *Improvements to IPSAS, 2019* in January 2020, which included amendments to IPSAS 30, *Financial Instruments: Disclosures*. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC9. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC10. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC11. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 30 as a result of *Improvements to IPSAS, 2021*

BC12. The IPSASB reviewed the revisions to IFRS 7, *Financial Instruments: Disclosures*, included in *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7) issued by the IASB in September 2019, 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, henceforth labeled as *Interest Rate Benchmark Reform*.

BC13. The IPSASB reviewed the revisions to IFRS 7, *Financial Instruments*, included in *Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform—Phase 2.*

IMPLEMENTATION GUIDANCE

CONTENTS

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 30.

Introduction

IG1. This guidance suggests possible ways to apply some of the disclosure requirements in IPSAS 30. The guidance does not create additional requirements.

IG2. For convenience, each disclosure requirement in this Standard is discussed separately. In practice, disclosures would normally be presented as an integrated package and individual disclosures might satisfy more than one requirement. For example, information about concentrations of risk might also convey information about exposure to credit or other risk.

IG3. [Deleted]

IG4. [Deleted]

Classes of Financial Instruments and Level of Disclosure (paragraphs 9 and AG1–AG3)

IG5. Paragraph AG3 states that "an entity decides in the light of its circumstances how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics." To satisfy the requirements, an entity may not need to disclose all the information suggested in this guidance.

IG6. Paragraph 29(c) of IPSAS 1 requires an entity to "provide additional disclosures when compliance with the specific requirements in IPSAS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance."

Significance of Financial Instruments for Financial Position and Financial Performance (paragraphs 10–36, AG4 and AG5)[1]

IG7. [Deleted]

IG8. [Deleted]

IG9. [Deleted]

IG10. [Deleted]

IG11. [Deleted]

Defaults and Breaches (paragraphs 22 and 23)

IG12. Paragraphs 22 and 23 require disclosures when there are any defaults or breaches of loans payable. Any defaults or breaches may affect the classification of the liability as current or non-current in accordance with IPSAS 1.

Total Interest Expense (paragraph 24(b))

IG13. Total interest expense disclosed in accordance with paragraph 24(b) is a component of the finance costs, which paragraph 102(b) of IPSAS 1 requires to be presented separately in the statement of financial performance. The line item for finance costs may also include amounts associated with non-financial liabilities.

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1 IPSAS 41, *Financial Instruments* deleted paragraph AG4 of IPSAS 30.

Hedge Accounting (paragraphs 28A–28C)

IG13A. Paragraph 28A of IPSAS 30 requires that an entity discloses amounts related to items designated as hedging instruments in a tabular format. The following example illustrates how that information might be disclosed.

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20X1
		Assets	Liabilities		
Cash flow hedges					
Commodity price risk					
- Forward sales contracts	xx	xx	xx	Line item XX	xx
Fair value hedges					
Interest rate risk					
- Interest rate swaps	xx	xx	xx	Line item XX	xx
Foreign exchange risk					
- Foreign currency loan	xx	xx	xx	Line item XX	xx

IG13B. Paragraph 28B of IPSAS 30 requires that an entity discloses amounts related to items designated as hedged items in a tabular format. The following example illustrates how that information might be disclosed.

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffective-ness for 20X1	Cash flow hedge reserve
	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges							
Commodity price risk							
- Forecast sales	n/a	n/a	n/a	n/a	n/a	xx	xx
- Discontinued hedges (forecast sales)	n/a	n/a	n/a	n/a	n/a	n/a	xx
Fair value hedges							
Interest rate risk							
- Loan payable	–	xx	–	xx	Line item XX	xx	n/a
- Discontinued hedges (Loan payable)	–	xx	–	xx	Line item XX	n/a	n/a
Foreign exchange risk							
- Firm commitment	xx	xx	xx	xx	Line item XX	xx	n/a

IG13C. Paragraph 28C of IPSAS 30 requires that an entity disclose amounts that have affected the statement of financial performance as a result of applying hedge accounting in a tabular format. The following example illustrates how that information might be disclosed.

Cash flow hedges[(a)]	**Separate line item recognized in surplus or deficit as a result of a hedge of a net position[(b)]**	**Change in the value of the hedging instrument recognized in net assets/equity**	**Hedge ineffectiveness recognized in surplus or deficit**	**Line item in surplus or deficit (that includes hedge ineffective-ness)**	**Amount reclassified from the cash flow hedge reserve to surplus or deficit**	**Line item affected in surplus or deficit because of the reclassification**
Commodity price risk						Line item XX
Commodity X	n/a	xx	xx	Line item XX	xx	Line item
- Discontinued hedge	n/a	n/a	n/a	n/a	xx	XX

(a) The information disclosed in the statement of changes in net assets/equity (cash flow hedge reserve) should have the same level of detail as these disclosures.

(b) This disclosure only applies to cash flow hedges of foreign currency risk.

Fair value hedges	**Ineffectiveness recognized in surplus or deficit**	**Line item(s) in surplus or deficit (that include(s) hedge ineffectiveness)**
Interest rate risk	xx	Line item XX
Foreign exchange risk	xx	Line item XX

Fair Value (paragraphs 31–34)

IG14. IPSAS 30 requires disclosures about the level in the fair value hierarchy in which fair value measurements are categorized for assets and liabilities measured in the statement of financial position. A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 33(a). (Disclosure of comparative information is also required, but is not included in the following example).

Assets Measured at Fair Value

		Fair value measurement at end of the reporting period using:		
		Level 1	**Level 2**	**Level 3**
Description	**Dec 31, 20X2**	**CU million**	**CU million**	**CU million**
Financial assets at fair value through surplus or deficit				
Trading securities	100	40	55	5
Trading derivatives	39	17	20	2

Financial assets at fair value through net assets/equity				
Equity investments	75	30	40	5
Total	214	87	115	12

Note: For liabilities, a similar table might be presented.

IG15. IPSAS 30 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a measurement technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 33(b). (Disclosure of comparative information is also required, but is not included in the following example).

Assets Measured at Fair Value Based on Level 3

	Fair value measurement at the end of the reporting period			
	Financial assets at fair value through surplus or deficit		**Financial assets at fair value through net assets/equity**	**Total**
	Trading securities CU million	Trading derivatives CU million	Equity investments CU million	CU million
Opening balance	6	5	4	15
Total gains or losses				
in surplus or deficit	(2)	(2)	–	(4)
in net assets/ equity	–	–	(1)	(1)
Purchases	1	2	2	5
Issues	–	–	–	–
Settlements	–	(1)	–	(1)
Transfers out of Level 3	–	(2)	–	(2)
Closing balance	5	2	5	12
Total gains or losses for the period included in surplus or deficit for assets held at the end of the reporting period	(1)	(1)	–	(2)

(Note: For liabilities, a similar table might be presented.)

Gains or losses included in surplus or deficit for the period (above) are presented in revenue as follows:

	Revenue

Total gains or losses included in surplus or deficit for the period	(4)
Total gains or losses for the period included in surplus or deficit for assets held at the end of the reporting period	(2)

(Note: For liabilities, a similar table might be presented.)

IG16. The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG151 of IPSAS 41. However, when, after initial recognition, an entity will use a measurement technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that measurement technique. In these circumstances, the difference will be recognized in surplus or deficit in subsequent periods in accordance with IPSAS 41 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph AG151 of IPSAS 41). An entity might disclose the following to comply with paragraph 34:

Background

On January 1, 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a measurement technique to establish the financial assets' fair value. This measurement technique includes variables other than data from observable markets.

At initial recognition, the same measurement technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at January 1, 20X1.

Application of Requirements

The entity's 20X2 disclosure would include the following:

Accounting Policies

The entity uses the following measurement technique to measure the fair value of financial instruments that are not traded in an active market: [description of technique not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IPSAS 41, is generally the transaction price) and the amount determined at initial recognition using the measurement technique. Any such differences are [description of the entity's accounting policy].

In the Notes to the Financial Statements

As discussed in note X, the entity uses [name of measurement technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IPSAS 41, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the measurement technique, that difference is [description of the entity's accounting policy].

The differences yet to be recognized in surplus or deficit are as follows:

	Dec 31, X2	**Dec 31, X1**
	CU million	CU million
Balance at beginning of year	5.3	5.0

Background		
New transactions	–	1.0
Amounts recognized in surplus or deficit during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	(0.1)	(0.1)
Balance at end of year	4.5	5.3

Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49 and AG6–AG30)

Qualitative Disclosures (paragraph 40)

IG17. The type of qualitative information an entity might disclose to meet the require-ments in paragraph 40 includes, but is not limited to, a narrative description of:

(a) The entity's exposures to risk and how they arose. Information about risk exposures might describe exposures both gross and net of risk transfer and other risk-mitigating transactions.

(b) The entity's policies and processes for accepting, measuring, monitoring, and controlling risk, which might include:

(i) The structure and organization of the entity's risk management function(s), including a discussion of independence and account-ability;

(ii) The scope and nature of the entity's risk reporting or measurement systems;

(iii) The entity's policies for hedging or mitigating risk, including its policies and procedures for taking collateral; and

(iv) The entity's processes for monitoring the continuing effectiveness of such hedges or mitigating devices.

(c) The entity's policies and procedures for avoiding excessive concentrations of risk.

IG18. Information about the nature and extent of risks arising from financial instruments is more useful if it highlights any relationship between financial instruments that can affect the amount, timing or uncertainty of an entity's future cash flows. The extent to which a risk exposure is altered by such relationships might be apparent to users from the disclosures required by this Standard, but in some cases further disclosures might be useful.

IG19. In accordance with paragraph 40(c), entities disclose any change in the qualitative information from the previous period and explain the reasons for the change. Such changes may result from changes in exposure to risk or from changes in the way those exposures are managed.

Quantitative Disclosures (paragraphs 41–49 and AG7–AG30)

IG20. Paragraph 41 requires disclosure of quantitative data about concentrations of risk. For example, concentrations of credit risk may arise from:

(a) Industry sectors. Thus, if an entity's counterparties are concentrated in one or more industry sectors (such as retail or wholesale), it would disclose separately exposure to risks arising from each concentration of counterparties.

(b) Credit rating or other measure of credit quality. Thus, if an entity's counterparties are concentrated in one or more credit qualities (such as secured loans or unsecured loans) or in one or more credit ratings (such as investment grade or speculative grade), it would disclose separately exposure to risks arising from each concentration of counterparties.

(c) Geographical distribution. Thus, if an entity's counterparties are concentrated in one or more geographical markets (such as Asia or Europe), it would disclose separately exposure to risks arising from each concentration of counterparties.

(d) A limited number of individual counterparties or groups of closely related counterparties.

Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realize liquid assets. Concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

IG21. In accordance with paragraph AG8, disclosure of concentrations of risk includes a description of the shared characteristic that identifies each concentration. For example, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries.

IG22. When quantitative information at the end of the reporting period is unrepresentative of the entity's exposure to risk during the period, paragraph 42 requires further disclosure. To meet this requirement, an entity might disclose the highest, lowest, and average amount of risk to which it was exposed during the period. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest, and average exposures.

Credit Risk (paragraphs 42A–43, AG8A–AG10)

IG22A. The following examples illustrate possible ways in which an entity might provide the disclosures required by paragraphs 42A–42N of IPSAS 30. However, these illustrations do not address all possible ways of applying the disclosure requirements.

Illustrating the Application of Paragraphs 42H and 42I

IG22B. The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance as required by paragraphs 42H–42I. This example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.

Mortgage loans–loss allowance	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
CU'000				
Loss allowance as at January 1	**X**	**X**	**X**	**X**
Changes due to financial instruments recognized as at January 1:				

Mortgage loans–loss allowance	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
- Transfer to lifetime expected credit losses	(X)	X	X	–
- Transfer to credit-impaired financial assets	(X)	–	(X)	X
- Transfer to 12-month expected credit losses	X	(X)	(X)	–
- Financial assets that have been derecognized during the period	(X)	(X)	(X)	(X)
New financial assets originated or purchased	X	–	–	–
Write-offs	–	–	(X)	(X)
Changes in models/risk parameters	X	X	X	X
Foreign exchange and other movements	X	X	X	X
Loss allowance as at December 31	**X**	**X**	**X**	**X**

Significant changes in the gross carrying amount of mortgage loans that contributed to changes in the loss allowance were:

- The acquisition of Region Y's prime mortgage portfolio increased the residential mortgage book by x percent, with a corresponding increase in the loss allowance measured on a 12-month basis.
- The write off of the CUXX Region Z's mortgage portfolio following the collapse of the local market in the region reduced the loss allowance for financial assets with objective evidence of impairment by CUX.
- The expected increase in unemployment in Region X caused a net increase in financial assets whose loss allowance is equal to lifetime expected credit losses and caused a net increase of CUX in the lifetime expected credit losses allowance.

The significant changes in the gross carrying amount of mortgage loans are further explained below:

Mortgage loans–gross carrying amount	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
CU'000				

Mortgage loans–gross carrying amount	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
Gross carrying amount as at January 1	**X**	**X**	**X**	**X**
Individual financial assets transferred to lifetime expected credit losses	(X)	–	X	–
Individual financial assets transferred to credit-impaired financial assets	(X)	–	(X)	X
Individual financial assets transferred from credit-impaired financial assets	X	–	X	(X)
Financial assets assessed on collective basis	(X)	X	–	–
New financial assets originated or purchased	X	–	–	–
Write-offs	–	–	(X)	(X)
Financial assets that have been derecognized	(X)	(X)	(X)	(X)
Changes due to modifications that did not result in derecognition	(X)	–	(X)	(X)
Other changes	X	X	X	X
Gross carrying amount as at December 31	**X**	**X**	**X**	**X**

Illustrating the Application of Paragraphs 42M and 42N

IG22C. The following example illustrates some ways of providing information about an entity’s credit risk exposure and significant credit risk concentrations in accordance with paragraph 42M of IPSAS 30. The number of grades used to disclose the information in accordance with paragraph 42M of IPSAS 30 shall be consistent with the number that the entity uses to report internally to key management personnel for internal credit risk management purposes. However, if information about credit risk rating grades is not available without undue cost or effort and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 83 of IPSAS 41, the entity shall provide an analysis by past due status for those financial assets.

Loan credit risk exposure by internal rating grades

20XX	**Mortgage Loans**	**Agriculture Loans**

Loan credit risk exposure by internal rating grades

CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	**12-month**	**Lifetime**	**12-month**
Internal Grade 1–2	x	x	x	x
Internal Grade 3–4	x	x	x	x
Internal Grade 5–6	x	x	x	x
Internal Grade 7	x	x	x	x
Total	**x**	**x**	**x**	**x**

Loan credit risk profile by external rating grades

20XX	Mortgage Loans		Agriculture Loans	
CU'000	**Gross carrying amount**		**Gross carrying amount**	
	Lifetime	**12-month**	**Lifetime**	**12-month**
AAA-AA	x	x	x	x
A	x	x	x	x
BBB-BB	x	x	x	x
B	x	x	x	x
CCC-CC	x	x	x	x
C	x	x	x	x
D	x	x	x	x
Total	**x**	**x**	**x**	**x**

Loan risk profile by probability of default

20XX	Mortgage Loans		Agriculture Loans	
CU'000	**Gross carrying amount**		**Gross carrying amount**	
	Lifetime	**12-month**	**Lifetime**	**12-month**
0.00 – 0.10	X	X	X	X
0.11 – 0.40	X	X	X	X
0.41 – 1.00	X	X	X	X
1.01 – 3.00	X	X	X	X
3.01 – 6.00	X	X	X	X

Loan credit risk exposure by internal rating grades				
6.01 – 11.00	X	X	X	X
11.01 – 17.00	X	X	X	X
17.01 – 25.00	X	X	X	X
25.01 – 50.00	X	X	X	X
50.01+	X	X	X	X
Total	**X**	**X**	**X**	**X**

IG22D. The Department of Agriculture provides short-term financing to both small-scale and large-scale farmers. The purpose of the financing is to purchase inputs such as fertilizers, seeds and pesticides. The Department of Agriculture discloses its small-scale farmers financing and large-scale farmers financing as separate classes of financial instruments and applies the simplified approach to its trade receivables so that the loss allowance is always measured at an amount equal to lifetime expected credit losses. The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach:

20XX CU'000	**Trade receivables days past due**				
Small-scale farmers financing	**Current**	**More than 30 days**	**More than 60 days**	**More than 90 days**	**Total**
Expected credit loss rate	0.10%	2%	5%	13%	
Estimated total gross carrying amount at default	CU20,777	CU1,416	CU673	CU235	CU23,101
Lifetime expected credit losses—small-scale farmers financing	CU21	CU28	CU34	CU31	CU114
Large-scale farmers financing					
Expected credit loss rate	0.20%	3%	8%	15%	
Estimated total gross carrying amount at default	CU19,222	CU2,010	CU301	CU154	CU21,687
Lifetime expected credit losses—large-scale farmers financing	CU38	CU60	CU24	CU23	CU145

Credit Risk (paragraphs 43–45, AG9 and AG10)

IG23. Paragraph 43 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that residential mortgages, unsecured agricultural loans, and research and development loans each have different economic characteristics.

Collateral and Other Credit Enhancements Pledged (paragraph 43(b))

IG24. Paragraph 43(b) requires an entity to describe collateral available as security for assets it holds and other credit enhancements obtained. An entity might meet this requirement by disclosing:

(a) The policies and processes for valuing and managing collateral and other credit enhancements obtained;

(b) A description of the main types of collateral and other credit enhancements (examples of the latter being guarantees, credit derivatives, and netting agreements that do not qualify for offset in accordance with IPSAS 28);

(c) The main types of counterparties to collateral and other credit enhancements and their creditworthiness; and

(d) Information about risk concentrations within the collateral or other credit enhancements.

IG25. [Deleted]

IG26. [Deleted]

IG27. [Deleted]

IG28. [Deleted]

IG29. [Deleted]

IG30. [Deleted]

IG31. [Deleted]

Market Risk (paragraphs 47–49 and AG19–AG30)

IG32. Paragraph 47(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. There are three types of market risk: interest rate risk, currency risk, and other price risk. Other price risk may include risks such as equity price risk, commodity price risk, prepayment risk (i.e., the risk that one party to a financial asset will incur a financial loss because the other party repays earlier or later than expected), and residual value risk (e.g., a lessor of motor cars that writes residual value guarantees is exposed to residual value risk). Risk variables that are relevant to disclosing market risk include, but are not limited to:

(a) The yield curve of market interest rates. It may be necessary to consider both parallel and non-parallel shifts in the yield curve.

(b) Foreign exchange rates.

(c) Prices of equity instruments.

(d) Market prices of commodities.

IG33. Paragraph 47(a) requires the sensitivity analysis to show the effect on surplus or deficit and net assets/equity of reasonably possible changes in the relevant risk variable. For example, relevant risk variables might include:

(a) Prevailing market interest rates, for interest-sensitive financial instruments such as a variable rate loan; or

(b) Currency rates and interest rates, for foreign currency financial instruments such as foreign currency bonds.

IG34. For interest rate risk, the sensitivity analysis might show separately the effect of a change in market interest rates on:

(a) Interest revenue and expense;

(b) Other line items of surplus or deficit (such as trading gains and losses); and

(c) When applicable, net assets/equity.

An entity might disclose a sensitivity analysis for interest rate risk for each currency in which the entity has material exposures to interest rate risk.

IG35. Because the factors affecting market risk vary depending on the specific circumstances of each entity, the appropriate range to be considered in providing a sensitivity analysis of market risk varies for each entity and for each type of market risk.

IG36. The following example illustrates the application of the disclosure requirement in paragraph 47(a):

Interest Rate Risk

At December 31, 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, surplus for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings. If interest rates had been 10 basis points higher, with all other variables held constant, surplus would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings. Surplus is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X).[a]

Foreign Currency Exchange Rate Risk

At December 31, 20X2, if the CU had weakened 10 percent against the US dollar with all other variables held constant, surplus for the year would have been CU2.8 million (20X1—CU6.4 million) lower, revenue would have been CU1.2 million (20X1—CU1.1 million) higher. Conversely, if the CU had strengthened 10 percent against the US dollar with all other variables held constant, surplus would have been CU2.8 million (20X1—CU6.4 million) higher, revenue would have been CU1.2 million (20X1—CU1.1 million) lower. The lower foreign currency exchange rate sensitivity in surplus in 20X2 compared with 20X1 is attributable to a reduction in foreign currency denominated debt. Revenue is more sensitive in 20X2 than in 20X1 because of the increased use of hedges of foreign currency purchases, offset by the reduction in foreign currency debt.

(a) Paragraph 46 requires disclosure of a maturity analysis of liabilities.

Other Market Risk Disclosures (paragraph 49)

IG37. Paragraph 49 requires the disclosure of additional information when the sensitivity analysis disclosed is unrepresentative of a risk inherent in a financial instrument. For example, this can occur when:

(a) A financial instrument contains terms and conditions whose effects are not apparent from the sensitivity analysis (e.g., options that remain out of (or in) the money for the chosen change in the risk variable);

(b) Financial assets are illiquid (e.g., when there is a low volume of transactions in similar assets and an entity finds it difficult to find a counterparty); or

(c) An entity has a large holding of a financial asset that, if sold in its entirety, would be sold at a discount or premium to the quoted market price for a smaller holding.

IG38. In the situation in paragraph IG37(a), additional disclosure might include:

(a) The terms and conditions of the financial instrument (e.g., the options);

(b) The effect on surplus or deficit if the term or condition were met (i.e., if the options were exercised); and

(c) A description of how the risk is hedged.

For example, an entity may acquire a zero cost interest rate collar that includes an out-of-the-money leveraged written option (e.g., the entity pays ten times the amount of the difference between a specified interest rate floor and the current market interest rate). The entity may regard the collar as an inexpensive economic hedge against a reasonably possible increase in interest rates. However, an unexpectedly large decrease in interest rates might trigger payments under the written option that, because of the leverage, might be significantly larger than the benefit of lower interest rates. Neither the fair value of the collar nor a sensitivity analysis based on reasonably possible changes in market variables would indicate this exposure. In this case, the entity might provide the additional information described above.

IG39. In the situation described in paragraph IG38(b), additional disclosure might include the reasons for the lack of liquidity and how the entity hedges the risk.

IG40. In the situation described in paragraph IG38(c), additional disclosure might include:

(a) The nature of the security (e.g., entity name);

(b) The extent of holding (e.g., 15 percent of the issued shares);

(c) The effect on surplus or deficit; and

(d) How the entity hedges the risk.

Derecognition (paragraphs 49D and 49E)

IG41. The following examples illustrate some possible ways to meet the quantitative disclosure requirements in paragraphs 49D and 49E.

IG42. The following examples illustrate how an entity that has adopted IPSAS 41 might meet the quantitative disclosure requirements in paragraphs 49D and 49E.

Transferred financial assets that are not derecognized in their entirety

Illustrating the application of paragraph 49D(d) and (e)

	Financial assets at fair value through surplus or deficit		**Financial assets at amortized cost**		**Financial assets at fair value through net assets/equity**
	CU million		CU million		CU million
	Trading assets	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognized in their entirety

Illustrating the application of paragraph 49E(a)–(d)

	Cash outflows to repurchase transferred (derecognized) assets	Carrying amount of continuing involvement in statement of financial position			Fair value of continuing involvement		Maximum exposure to loss
	CU million	CU million			CU million		CU million
Type of continuing involvement		**Financial assets at fair value through surplus or deficit**	**Financial assets at fair value through net assets/equity**	**Financial liabilities at fair value through surplus or deficit**	**Assets**	**Liabilities**	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X
Securities lending	(X)			(X)	X	(X)	X
Total		X		(X)	X	(X)	X

Illustrating the Application of Paragraph 49E(e)

Undiscounted cash flows to repurchase transferred assets								
	Maturity of continuing involvement CU million							
Type of continuing involvement	Total	less than 1 month	1–3 months	3–6 months	6 months – 1 year	1–3 years	3–5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

IG43. The following examples illustrate how an entity that has not adopted IPSAS 41 might meet the quantitative disclosure requirements in paragraphs 49D and 49E.

Transferred financial assets that are not derecognized in their entirety

Illustrating the application of paragraph 49D(d) and (e)

	Financial assets at fair value through surplus or deficit		**Loans and receivables**		**Available-for-sale financial assets**
	CU million		CU million		CU million
	Trading securities	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognized in their entirety

Illustrating the application of paragraph 49E(a)–(d)

	Cash outflows to repurchase transferred (derecognized) assets	**Carrying amount of continuing involvement in statement of financial position**			**Fair value of continuing involvement**		**Maximum exposure to loss**
	CU million	**CU million**			**CU million**		**CU million**
Type of continuing involvement		**Held for trading**	**Available-for-sale financial assets**	**Financial liabilities at fair value through surplus or deficit**	**Assets**	**Liabilities**	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X
Securities lending	(X)		X	(X)	X	(X)	X
Total		X	X	(X)	X	(X)	X

Illustrating the application of paragraph 49E(e)

Undiscounted cash flows to repurchase transferred assets								
Maturity of continuing involvement CU million								
Type of continuing involvement	Total	less than 1 month	1–3 months	3–6 months	6 months –1 year	1–3 years	3–5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

Disclosures (paragraphs 17A–17F and AG42–55)

IG44. The following examples illustrate ways in which an entity might provide the quantitative disclosures required by paragraph 17C. However, these illustrations do not address all possible ways of applying the disclosure requirements as set out in paragraphs 17B–17E.

Background

An entity has entered into transactions subject to an enforceable master netting arrangement or similar agreement with the following counterparties. The entity has the following recognized financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in paragraph 17A.

Counterparty A:

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty A that meet the offsetting criteria in paragraph 47 of IPSAS 28. Consequently, the gross derivative liability is set off against the gross derivative asset, resulting in the presentation of a net derivative asset of CU20 million in the entity's statement of financial position. Cash collateral has also been received from Counterparty A for a portion of the net derivative asset (CU10 million). The cash collateral of CU10 million does not meet the offsetting criteria in paragraph 47 of IPSAS 28, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty B:

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty B that do not meet the offsetting criteria in paragraph 47 of IPSAS 28, but which the entity has the right to set off in the case of default and insolvency or bankruptcy. Consequently, the gross amount of the derivative asset (CU100 million) and the gross amount of the derivative liability (CU80 million) are presented separately in the entity's statement of financial position. Cash collateral has also been received from Counterparty B for the net amount of the derivative asset and derivative liability (CU20 million). The cash collateral of CU20 million does not meet the offsetting criteria in paragraph 47 of IPSAS 28, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty C:

The entity has entered into a sale and repurchase agreement with Counterparty C that is accounted for as a collateralized borrowing. The carrying amount of the financial assets (bonds) used as collateral and posted by the entity for the transaction is CU79 million and their fair value is CU85 million. The carrying amount of the collateralized borrowing (repo payable) is CU80 million.

The entity has also entered into a reverse sale and repurchase agreement with Counterparty C that is accounted for as a collateralized lending. The fair value of the financial assets (bonds) received as collateral (and not recognized in the entity's statement of financial position) is CU105 million. The carrying amount of the collateralized lending (reverse repo receivable) is CU90 million.

The transactions are subject to a global master repurchase agreement with a right of set-off only in default and insolvency or bankruptcy and therefore do not meet the offsetting criteria in paragraph 47 of IPSAS 28. Consequently, the related repo payable and repo receivable are presented separately in the entity's statement of financial position.

Illustrating the Application of Paragraph 17C(a)–(e) by Type of Financial Instrument

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at December 31, 20XX	**(a)**	**(b)**	**(c)=(a)-(b)**	**(d)**		**(e)=(c)-(d)**
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognized financial assets	**Gross amounts of recognized financial liabilities set off in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral received**	**Net amount**
Description						
Derivatives	200	(80)	120	(80)	(30)	10
Reverse repurchase, securities borrowing and similar agreements	90	–	90	(90)	–	–
Other financial instruments	–	–	–	–	–	–
Total	290	(80)	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at December 31, 20XX	**(a)**	**(b)**	**(c)=(a)-(b)**	**(d)**		**(e)=(c)-(d)**
				Related amounts not set off in the statement of financial position		

	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	(d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral received	Net amount
Description						
Derivatives	160	(80)	80	(80)	–	–
Repurchase, securities lending and similar agreements	80	–	80	(80)	–	–
Other financial instruments	–	–	–	–	–	–
Total	240	(80)	160	(160)	–	–

Illustrating the Application of Paragraph 17C(a)–(c) by Type of Financial Instrument and Paragraph 17C(c)–(e) by Counterparty

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at December 31, 20XX	(a)	(b)	(c)=(a)-(b)
	Gross amounts of recognized financial assets	**Gross amounts of recognized financial liabilities set off in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**
Description			
Derivatives	200	(80)	120
Reverse repurchase, securities borrowing and similar agreements	90	–	90
Other financial instruments	–	–	–
Total	290	(80)	210

Net financial assets subject to enforceable master netting arrangements and similar agreements, by counterparty

CU million

As at December 31, 20XX	(c)	(d)		(e)=(c)-(d)
		Related amounts not set off in the statement of financial position		
	Net amounts of financial assets presented in the statement of financial position	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral received**	**Net amount**
Counterparty A	20	–	(10)	10
Counterparty B	100	(80)	(20)	–
Counterparty C	90	(90)	–	–
Other	–	–	–	–
Total	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at December 31, 20XX	(a)	(b)	(c)=(a)-(b)
	Gross amounts of recognized financial liabilities	**Gross amounts of recognized financial assets set off in the statement of financial position**	**Net amounts of financial liabilities presented in the statement of financial position**
Description			
Derivatives	160	(80)	80
Repurchase, securities lending and similar agreements	80	–	80
Other financial instruments	–	–	–
Total	240	(80)	160

Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

CU million

As at December 31, 20XX	(c)	(d)		(e)=(c)-(d)
		Related amounts not set off in the statement of financial position		
	Net amounts of financial liabilities presented in the statement of financial position	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral received**	**Net amount**
Counterparty A	–	–	–	–

Counterparty B	80	(80)	–	–
Counterparty C	80	(80)	–	–
Other	–	–	–	–
Total	160	(160)	–	–

Transition from IPSAS 29 to IPSAS 41 (paragraphs 49K–49O)

IG45. The following illustration is an example of one possible way to meet the quantitative disclosure requirements in paragraphs 49K–49O of IPSAS 30 at the date of initial application of IPSAS 41. However, this illustration does not address all possible ways of applying the disclosure requirements of this Standard.

Reconciliation of statement of financial position balances from IPSAS 29 to IPSAS 41 at January 1, 2022

Financial assets	**(i)**	**(ii)**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	**(v) = (iii)**
	IPSAS 29 carrying amount December 31, 2021 (1)	**Reclassifi-cations**	**Remeasu-rements**	**IPSAS 41 carrying amount January 1, 2022**	**Accumulated surplus or deficit effect on January 1, 2022 (2), (3)**
Fair value through surplus or deficit					
Additions:					
From available for sale (IPSAS 29)	(a)			(c)	
From amortized cost (IPSAS 29) – required reclassification	(b)				
From amortized cost (IPSAS 29) – fair value option elected at January 1, 2022					
Subtractions:					
To amortized cost (IPSAS 41)					
To fair value through net assets/equity – debt instruments (IPSAS 41)					
To fair value through net assets/equity – equity instruments (IPSAS 41)					
Total change to fair value through surplus or deficit					
Fair value through net assets/equity					
Additions – debt instruments:					
From available for sale (IPSAS 29)				(g)	
From amortized cost (IPSAS 29)				(h)	
From fair value through surplus or deficit (IPSAS 29) – required				(i)	

Reconciliation of statement of financial position balances from IPSAS 29 to IPSAS 41 at January 1, 2022

Financial assets	**(i)**	**(ii)**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	**(v) = (iii)**
	IPSAS 29 carrying amount December 31, 2021 (1)	**Reclassifi-cations**	**Remeasu-rements**	**IPSAS 41 carrying amount January 1, 2022**	**Accumulated surplus or deficit effect on January 1, 2022 (2), (3)**
reclassification based on classification criteria					
From fair value through surplus or deficit (fair value option under IPSAS 29) – fair value option criteria not met at January 1, 2022				(j)	
From fair value through surplus or deficit (IPSAS 29) – fair value option revoked at January 1, 2022 by choice				(k)	
Additions – equity instruments:					
From available-for-sale (IPSAS 29)					
From fair value through surplus or deficit (fair value option under IPSAS 29)–fair value through net assets/equity elected at January 1, 2022					
From cost (IPSAS 29)					
Subtractions – debt and equity instruments:					
Available for sale (IPSAS 29) to fair value through surplus or deficit (IPSAS 41) – required reclassification based on classification criteria				(d)	
Available for sale (IPSAS 29) to fair value through surplus or deficit (IPSAS 41) – fair value option elected at January 1, 2022					
Available for sale (IPSAS 29) to amortized cost (IPSAS 41)				(e)	
Total change to fair value through net assets/equity					
Amortized cost					
Additions:					
From available for sale (IPSAS 29)				(f)	

Reconciliation of statement of financial position balances from IPSAS 29 to IPSAS 41 at January 1, 2022

Financial assets	**(i)**	**(ii)**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	**(v) = (iii)**
	IPSAS 29 carrying amount December 31, 2021 (1)	**Reclassifi-cations**	**Remeasu-rements**	**IPSAS 41 carrying amount January 1, 2022**	**Accumulated surplus or deficit effect on January 1, 2022 (2), (3)**
From fair value through surplus or deficit (IPSAS 29) – required reclassification					
From fair value through surplus or deficit (fair value option under IPSAS 29) – fair value option criteria not met at January 1, 2022					
From fair value through surplus or deficit (IPSAS 29) – fair value option revoked at January 1, 2022 by choice					
Subtractions:					
To fair value through net assets/equity (IPSAS 41)				(l)	
To fair value through surplus or deficit (IPSAS 41) – required reclassification based on classification criteria					
To fair value through surplus or deficit (IPSAS 41)–fair value option elected at January 1, 2022					
Total change to amortized cost					
Total financial asset balances, reclassifications and remeasure-ments at January 1, 2022	**(i)**	**Total (ii) = 0**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	

1 Includes the effect of reclassifying hybrid instruments that were bifurcated under IPSAS 29 with host contract components of (a), which had associated embedded derivatives with a fair value of X at December 31, 2021, and (b), which had associated embedded derivatives with a fair value of Y at December 31, 2021.

2 Includes (c), (d), (e) and (f), which are amounts reclassified from net assets/equity to accumulated surplus or deficit at the date of initial application.

3 Includes (g), (h), (i), (j), (k) and (l), which are amounts reclassified from accumulated surplus or deficit to net assets/equity at the date of initial application.

COMPARISON WITH IFRS 7

IPSAS 30, *Financial Instruments: Disclosures* is drawn primarily from IFRS 7, *Financial Instruments: Disclosures* (originally issued in 2005, including amendments published to April 2009). The main differences between IPSAS 30 and IFRS 7 are as follows:

- IPSAS 30 contains requirements related to concessionary loans. IFRS 7 does not require disclosures relating to concessionary loans.
- In certain instances, IPSAS 30 uses different terminology from IFRS 7. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 30. The equivalent terms in IFRS 7 are "income," "statement of comprehensive income," and "equity."

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