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Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 5 *Non-current Assets Held for Sale and Discontinued Operations*, published by the International Accounting Standards Board (IASB®). Extracts from IFRS 5 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 Foundation.

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IPSAS 44—NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* was issued in May 2022.

Since then, IPSAS 44 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)

Table of Amended Paragraphs in IPSAS 44

Paragraph Affected	How Affected	Affected By
16	Amended	IPSAS 45 May 2023
32	Amended	IPSAS 45 May 2023
37	Amended	IPSAS 45 May 2023
58A	New	IPSAS 45 May 2023
Implementation Guidance – Example 11	Amended	IPSAS 47 May 2023

May 2022

IPSAS 44, NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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Objective

1. The objective of this Standard is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, this Standard requires:

   (a) Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

   (b) Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations.**

3. The classification and presentation requirements of this Standard apply to all recognized non-current assets[1] and to all disposal groups of an entity. The measurement requirements of this Standard apply to all recognized non-current assets and disposal groups (as set out in paragraph 5), except for those assets listed in paragraph 6 which shall continue to be measured in accordance with the Standard noted.

4. Assets classified as non-current in accordance with IPSAS 1, *Presentation of Financial* Statements shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this Standard. Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this Standard.

5. Sometimes an entity disposes of a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit[2].. The group may include any assets and any liabilities of the entity, including current assets, current liabilities and assets excluded by paragraph 6 from the measurement requirements of this Standard. If a non-current asset within the scope of the measurement requirements of this Standard is part of a disposal group, the measurement requirements of this Standard apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. The requirements for measuring the individual assets and liabilities within the disposal group are set out in paragraphs 26, 27 and 31.

6. The measurement provisions of this Standard[3] do not apply to the following assets, which are covered by the Standards listed, either as individual assets or as part of a disposal group:

   (a) Deferred tax assets within the scope of the relevant international or national accounting standard dealing with income taxes;

   (b) Assets arising from employee benefits (IPSAS 39, *Employee Benefits*);

   (c) Financial assets within the scope of IPSAS 41, *Financial Instruments*;

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[1] For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period. Paragraph 4 applies to the classification of such assets.

[2] However, once the cash flows from an asset or group of assets are expected to arise principally from sale rather than continuing use, they become less dependent on cash flows arising from other assets, and a disposal group that was part of a cash-generating unit becomes a separate cash-generating unit.

[3] Other than paragraphs 26 and 27, which require the assets in question to be measured in accordance with other applicable IPSAS.

(d) Non-current assets that are accounted for in accordance with the fair value model in IPSAS 16, *Investment Property;*

(e) Non-current assets that are measured at fair value less costs to sell in accordance with IPSAS 27, *Agriculture*; and

(f) Groups of contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts.

7. The classification, presentation and measurement requirements in this Standard applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).

8. This Standard specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IPSAS do not apply to such assets (or disposal groups) unless those IPSAS require:

(a) Specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

(b) Disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of this Standard and such disclosures are not already provided in the other notes to the financial statements.

Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the general requirements of IPSAS 1, in particular paragraphs 27 and 140 of that Standard.

Definitions

9. **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.

A <u>component of an entity</u> comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

<u>Costs to sell</u> are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

An entity shall classify an asset as a <u>current asset</u> when:

(a) **It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;**

(b) **It holds the asset primarily for the purpose of trading;**

(c) **It expects to realize the asset within twelve months after the reporting period; or**

(d) **The asset is cash or a cash equivalent (as defined in IPSAS 2, *Cash Flow Statements*) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.**

A <u>discontinued operation</u> is a component of an entity that either has been disposed of or is classified as held for sale and:

(a) **Represents a separate major operation or geographical area of operations;**

(b) **Is part of a single coordinated plan to dispose of a separate operation or geographical area of operations; or**

(c) **Is a controlled entity acquired exclusively with a view to resale.**

A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a public sector combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 90A–90H of IPSAS 26, *Impairment of Cash-Generating Assets or* if it is an operation within such a cash-generating unit.

A firm purchase commitment is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.

Highly probable means significantly more likely than probable.

A non-current asset is an asset that does not meet the definition of a current asset.

Probable means more likely than not.

Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

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. **The term 'fair value' is used in this Standard with the same meaning as in IPSAS 46, *Measurement*.**

Classification of Non-current Assets (or Disposal Groups) as Held for Sale or as Held for Distribution to Owners

11. **An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.**

12. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

13. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 15, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of owners' approval[4] (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

14. An entity that is committed to a sale plan involving loss of control of a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the criteria set out in paragraphs 11–13 are met, regardless of whether the entity will retain a non-controlling interest in its former controlled entity after the sale.

[4] In the public sector, obtaining regulatory approval to sell assets is common.

15. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). This will be the case when the criteria in Appendix A are met.

16. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IPSAS 45, *Property, Plant, and Equipment.*

17. When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if the one-year requirement in paragraph 13 is met (except as permitted by paragraph 15) and it is highly probable that any other criteria in paragraphs 12 and 13 that are not met at that date will be met within a short period following the acquisition (usually within three months).

18. If the criteria in paragraphs 12 and 13 are met after the reporting period, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting period but before the authorization of the financial statements for issue, the entity shall disclose the information specified in paragraph 51(a), (b) and (d) in the notes.

19. A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of owners' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

Non-current Assets that are to be Abandoned

20. An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 41(a)–(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 42 and 43 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

21. An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

Measurement of Non-current Assets (or Disposal Groups) Classified as Held for Sale

Measurement of a Non-current Asset (or Disposal Group)

22. **An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.**

23. **An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.**[5]

[5] Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.

24. If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 17), applying paragraph 22 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a public sector acquisition (see IPSAS 40, *Public Sector Combinations*), it shall be measured at fair value less costs to sell. If the asset (or disposal group) is acquired as part of a public sector amalgamation (see IPSAS 40,), it shall be measured at the lower of its carrying amount and fair value less costs to sell.

25. When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in surplus or deficit as a financing cost.

26. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IPSAS.

27. On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this Standard, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable IPSAS before the fair value less costs to sell of the disposal group is remeasured.

Recognition of Impairment Losses and Reversals

28. An entity shall recognize an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognized in accordance with paragraph 27.

29. An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized either in accordance with this Standard or previously in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets.*

30. An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of a disposal group:

    (a) To the extent that it has not been recognized in accordance with paragraph 27; but

    (b) Not in excess of the cumulative impairment loss that has been recognized, either in accordance with this Standard or previously in accordance with IPSAS 21 or IPSAS 26, on the non-current assets that are within the scope of the measurement requirements of this Standard.

31. The impairment loss (or any subsequent gain) recognized for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Standard, in the order of allocation set out in paragraphs 91(a) and (b) and 110 of IPSAS 26.

32. A gain or loss not previously recognized by the date of the sale of a non-current asset (or disposal group) shall be recognized at the date of derecognition. Requirements relating to derecognition are set out in:

    (a) Paragraphs 62–68 of IPSAS 45 for property, plant, and equipment; and

    (b) Paragraphs 111–116 of IPSAS 31*, Intangible Assets*, for intangible assets.

33. An entity shall not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

Changes to a Plan of Sale or to a Plan of Distribution to Owners

34. If an entity has classified an asset (or disposal group) as held for sale or as held for distribution to owners, but the criteria in paragraphs 12–15 (for held for sale) or in paragraph 19 (for held for distribution to owners) are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale or held for distribution to owners (respectively). In such cases an entity shall follow the guidance in paragraphs 36–38 to account for this change except when paragraph 35 applies.

35. If an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution to owners, or directly from being held for distribution to owners to being held for sale, then the change in classification is considered a continuation of the original plan of disposal. The entity:

(a) Shall not follow the guidance in paragraphs 36–38 to account for this change. The entity shall apply the classification, presentation and measurement requirements in this Standard that are applicable to the new method of disposal.

(b) Shall measure the non-current asset (or disposal group) by following the requirements in paragraph 22 (if reclassified as held for sale) or 23 (if reclassified as held for distribution to owners) and recognize any reduction or increase in the fair value less costs to sell/costs to distribute of the non-current asset (or disposal group) by following the requirements in paragraphs 28–33.

(c) Shall not change the date of classification in accordance with paragraphs 13 and 19. This does not preclude an extension of the period required to complete a sale or a distribution to owners if the conditions in paragraph 15 are met.

36. The entity shall measure a non-current asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners (or ceases to be included in a disposal group classified as held for sale or as held for distribution to owners) at the lower of:

(a) Its carrying amount before the asset (or disposal group) was classified as held for sale or as held for distribution to owners, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale or as held for distribution to owners; and

(b) Its recoverable amount at the date of the subsequent decision not to sell or distribute.[6]

37. The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in surplus or deficit[7] from continuing operations in the period in which the criteria in paragraphs 12–15 or 19, respectively, are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale or as held for distribution to owners is a controlled entity, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of financial performance used to present a gain or loss, if any, recognized in accordance with paragraph 47.

38. If an entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the criteria in paragraphs 12–15. If an entity removes an individual asset or liability

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[6] If the non-current asset is part of a cash-generating unit, its recoverable amount is the carrying amount that would have been recognized after the allocation of any impairment loss arising on that cash-generating unit in accordance with IPSAS 26.

[7] Unless the asset is property, plant, and equipment or an intangible asset that had been revalued in accordance with IPSAS 31 or IPSAS 45 before classification as held for sale, in which case the adjustment shall be treated as a revaluation increase or decrease.

from a disposal group classified as held for distribution to owners, the remaining assets and liabilities of the disposal group to be distributed shall continue to be measured as a group only if the group meets the criteria in paragraph 19. Otherwise, the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale (or as held for distribution to owners) shall be measured individually at the lower of their carrying amounts and fair values less costs to sell (or costs to distribute) at that date. Any non-current assets that do not meet the criteria for held for sale shall cease to be classified as held for sale in accordance with paragraph 34. Any non-current assets that do not meet the criteria for held for distribution to owners shall cease to be classified as held for distribution to owners in accordance with paragraph 34.

Presentation and Disclosure

39. **An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).**

Presenting Discontinued Operations

40. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity may have been a cash-generating unit or a group of cash-generating units while being held for use.

41. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

    (a) Represents a separate major operation or geographical area of operations;

    (b) Is part of a single coordinated plan to dispose of a separate major operation or geographical area of operations; or

    (c) Is a controlled entity acquired exclusively with a view to resale.

42. An entity shall disclose:

    (a) A single amount in the statement of financial performance comprising the total of:

        (i) The post-tax surplus or deficit of discontinued operations; and

        (ii) The post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

    (b) An analysis of the single amount in (a) into:

        (i) The revenue, expenses and pre-tax surplus or deficit of discontinued operations;

        (ii) The related income tax expense as required by the relevant international or national accounting standard dealing with income taxes;

        (iii) The gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

        (iv) The related income tax expense as required by the relevant international or national accounting standard dealing with income taxes.

    The analysis may be presented in the notes or in the statement of financial performance. If it is presented in the statement of financial performance, it shall be presented in a section identified as relating to discontinued operations, i.e., separately from continuing operations. The analysis is not required for disposal groups that are newly acquired controlled entities that meet the criteria to be classified as held for sale on acquisition (see paragraph 17).

(c) The net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired controlled entities that meet the criteria to be classified as held for sale on acquisition (see paragraph 17).

(d) The amount of revenue from continuing operations and from discontinued operations attributable to owners of the controlling entity. These disclosures may be presented either in the notes or in the statement of financial performance.

43. An entity shall re-present the disclosures in paragraph 42 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

44. Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:

(a) The resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser.

(b) The resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller.

(c) The settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.

45. If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations in accordance with paragraphs 42–44 shall be reclassified and included in revenue from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

46. An entity that is committed to a sale plan involving loss of control of a controlled entity shall disclose the information required in paragraphs 42–45 when the controlled entity is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 41.

Gains or Losses Relating to Continuing Operations

47. Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in surplus or deficit from continuing operations.

Presentation of a Non-current Asset or Disposal Group Classified as Held for Sale

48. An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial position or in the notes, except as permitted by paragraph 49. An entity shall present separately any cumulative revenue or expense recognized in the statement of changes in net assets/equity relating to a non-current asset (or disposal group) classified as held for sale.

49. If the disposal group is a newly acquired controlled entity that meets the criteria to be classified as held for sale on acquisition (see paragraph 17), disclosure of the major classes of assets and liabilities is not required.

50. An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.

Additional Disclosures

51. An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(a) A description of the non-current asset (or disposal group);

(b) A description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(c) The gain or loss recognized in accordance with paragraphs 28–30 and, if not separately presented in the statement of financial performance, the caption in the statement of financial performance that includes that gain or loss; and

(d) If applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with IPSAS 18, *Segment Reporting.*

52. An entity shall disclose in the notes, the fair value of the non-current asset (or disposal group) classified as held for sale when that non-current asset (or disposal group) is measured at a materially lower carrying amount than fair value.

53. If either paragraph 34 or paragraph 38 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

Fair Value Disclosures

54. An entity shall disclose information that helps users of its financial statements assess, for assets and liabilities that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.

55. To meet the objectives in paragraph 54, 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 Standard and other IPSAS are insufficient to meet the objectives in paragraph 54, an entity shall disclose additional information necessary to meet those objectives.

56. To meet the objectives in paragraph 54, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities measured at fair value (including measurements based on fair value within the scope of IPSAS 46), in the statement of financial position after initial recognition:

(a) The fair value measurement at the end of the reporting period, and the reasons for the measurement.

(b) 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 fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, 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 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).

(e) For fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

57. For each class of assets and liabilities 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 paragraphs 56(b), 56(c) and 56(e). 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 56(c). For such assets and liabilities, an entity does not need to provide the other disclosures required by this Standard.

Effective Date and Transition

Effective Date

58. **An entity shall apply this Standard for annual financial statements beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 *Leases* at the same time.**

58A. **Paragraphs 16, 32, 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.**

59. When an entity adopts the accrual basis of 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.

Transition

60. This Standard shall be applied prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after the effective date of this Standard. An entity may apply the requirements of this Standard to all non-current assets

(or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after any date before the effective date of this Standard, provided the valuations and other information needed to apply this Standard were obtained at the time those criteria were originally met.

Appendix A

Application Guidance

This appendix is an integral part of IPSAS 44

Extension of the period required to complete a sale (paragraph15)

AG1. As noted in paragraph 15, an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). An exception to the one-year requirement in paragraph 13 shall therefore apply in the following situations in which such events or circumstances arise:

(a) At the date an entity commits itself to a plan to sell a non-current asset (or disposal group) it reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and:

(i) Actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained, and

(ii) A firm purchase commitment is highly probable within one year.

(b) An entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non-current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale, and:

(i) Timely actions necessary to respond to the conditions have been taken; and

(ii) A favorable resolution of the delaying factors is expected.

(c) During the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and:

(i) During the initial one-year period the entity took action necessary to respond to the change in circumstances;

(ii) The non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances; and

(iii) The criteria in paragraphs 12 and 13 are met.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 88, 102 and 107 are amended, paragraph 153N is added. New text is underlined, and deleted text is struck through.

…

Statement of Financial Position

…

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;**

…

(i) **Cash and cash equivalents;**

(ia) **<u>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*;</u>**

(j) **Taxes and transfers payable;**

…

(m) **Financial liabilities (excluding amounts shown under (j), (k) and (l));**

(ma) **<u>Liabilities included in disposal groups classified as held for sale in accordance with IPSAS 44.</u>**

(n) **Non-controlling interest, presented within net assets/equity; and**

(o) **Net assets/equity attributable to owners of the controlling entity.**

…

Statement of Financial Performance

Surplus or Deficit for the Period

…

Information to be Presented on the Face of the Statement of 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;**

…

(d) **[deleted]~~Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and~~**

(e) **Surplus or deficit.; and**

(f) **A single amount for the total of discontinued operations (see IPSAS 44).**

…

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

…

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;

…

(e) ~~Discontinuing~~ Discontinued operations;

(f) …

…

Effective Date

…

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.**

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 1.

Illustrative Financial Statement Structure

…

Public Sector Entity—Statement of Accounting Policies (Extract)

…

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
…		
Total revenue	X	X
Expenses		
General public services	(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
…		
Total Revenue	X	X
Expenses		
Wages, salaries, and employee benefits	(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
…		

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 ~~has~~ had not considered the applicability of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 1 ~~does~~ 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.

…

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended, and paragraph 63I is added. New text is underlined, and deleted text is struck through.

…

Presentation of a Cash Flow Statement

…

Operating Activities

…

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;

    …

    (k) Cash receipts or payments from ~~discontinuing~~ discontinued operations; and

    (l) …

…

Effective Date

…

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.**

Amendment to IPSAS 14, *Events after the Reporting Date*

Paragraphs 16 and 31 are amended and paragraph 32G is added. New text is underlined, and deleted text is struck through.

…

Recognition and Measurement

…

Dividends or Similar Distributions

…

16 If dividends or similar distributions to owners are declared (~~i.e., the dividends or similar distributions are appropriately authorized and no longer at the discretion of the entity~~) 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.

…

Disclosure

…

Disclosure of Non-adjusting Events after the Reporting Date

…

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;

…

(d) Announcing a plan to discontinue an operation or major program~~, disposing of assets, or settling liabilities attributable to a discontinued operation or major program, or entering into binding agreements to sell such assets or settle such liabilities;~~

(e) Major purchases ~~and disposals~~ of assets;, <u>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;</u>

(f) …

…

Effective Date

…

32G. <u>**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.**</u>

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 14.

…

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~~ 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*, ~~may~~ might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector ~~may~~ might not be completed within one year because of the levels of approval required. This ~~raises~~ had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB ~~notes~~ had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB hads concerns that not depreciating assets for an extended period of time ~~may~~ 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 ~~may~~ might not provide relevant information for these transfers. However, the IPSASB ~~recognizes~~ had recognized that the measurement and disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ might not provide relevant information for public sector discontinued operations. However, the IPSASB ~~recognizes~~ had recognized that the disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ might result in entities following the requirements of IFRS 5 in circumstances where this ~~may~~ 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.

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 65, 87 and 90 are amended and paragraph 101I is added. New text is underlined, and deleted text is struck through.

…

Measurement after recognition

…

Cost model

65. **After initial recognition, an entity that chooses the 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);**

~~(a)~~(b) **In accordance with IPSAS 43, *Leases*, 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**

~~(b)~~(c) **In accordance with the requirements in IPSAS 17 for the cost model ~~if it is held by an owner as an owned investment property~~ in all other cases.**

…

Disclosure

…

Fair value model

87. **In addition to the disclosures required by paragraph 86, an entity that applies the fair 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;**

…

(c) **~~Disposals~~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) …

…

Cost Model

90. **In addition to the disclosures required by paragraph 86, an entity that applies the cost model in paragraph 65 shall disclose:**

(a) **The depreciation methods used;**

…

(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) **~~Disposals~~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) …

…

Effective Date

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.**

…

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 ~~has~~ 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 ~~does~~ 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.

…

Amendments to IPSAS 17, *Property, Plant, and Equipment*

Paragraphs 6, 71, 83A, 88, and 94 are amended and paragraph 107S is added. New text is underlined, and deleted text is struck through.

…

Scope

…

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)~~.~~; and

   (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).

…

Depreciation

…

Depreciable amount and depreciation period

…

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 ~~when~~ 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.

…

Derecognition

…

83A. However, an entity that, in the course of its ordinary activities, routinely sells 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 proceeds from the sale of such assets shall be recognized as revenue in accordance with IPSAS 9, *Revenue from Exchange Transactions*. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of operations are transferred to inventories.

…

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;**

…

(e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

(i) **Additions;**

(ii) **~~Disposals~~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) …

…

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;

…

(c) The carrying amount of property, plant, and equipment retired from active use and ~~held for disposal~~ not classified as held for sale in accordance with IPSAS 44; and

(d) …

…

Effective Date

…

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.**

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 ~~has~~ had not considered the applicability of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* to public sector entities; therefore, IPSAS 17 ~~does~~ 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.

…

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 6 is amended and paragraph 111M is added. New text is underlined, and deleted text is struck through.

…

Scope

…

6. This Standard applies to provisions for restructuring (including discontinued operations ~~being discontinued~~). 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*. ~~An entity shall disclose information that enables users of its financial statements to evaluate the financial effects of a restructuring.~~

…

Effective Date

…

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 44at the same time.

…

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~~ 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*, ~~may~~ might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector ~~may~~ might not be completed within one year because of the levels of approval required. This ~~raises~~ had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB ~~notes~~ had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB ~~has~~ had concerns that not depreciating assets for an extended period of time ~~may~~ 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 ~~may~~ might not provide relevant information for these transfers. However, the IPSASB ~~recognizes~~ had recognized that the measurement and disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ might not provide relevant information for public sector discontinued operations. However, the IPSASB ~~recognizes~~ had recognized that the disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ 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.

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.

…

Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraphs 2, 8 and 27 (footnote added) were amended and paragraph 82K is added. New text is underlined, and deleted text is struck through.

…

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*);**

   …

   (d) **Investment property that is measured using the fair value model (see IPSAS 16, *Investment Property*); ~~and~~**

   (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.**

…

8. This Standard does not apply to inventories, ~~and~~ assets arising from construction contracts, 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.

…

Identifying an Asset that may be Impaired

…

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;**[1]

   (e) …

…

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, *Non-current Assets Held for Sale and Discontinued Operations*.

Effective Date

…

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**.

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 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*.~~, and (e) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.*~~

…

Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraphs 2, 8 and 25 (footnote added) are amended and paragraph 126M is added. New text is underlined, and deleted text is struck through.

…

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*);**

   …

(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; ~~and~~**

(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.**

…

8. This Standard does not apply to inventories, ~~and~~ cash-generating assets arising from construction contracts, or assets classified as held for sale (or included in a disposal group that is classified as held for sale) 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 to sell. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

…

Identifying an Asset that may be Impaired

…

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) During the period, an asset's market value has declined 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) …

…

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, *Non-current Assets Held for Sale and Discontinued Operations*.

Effective Date

…

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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 26.

…

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~~ 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*, ~~may~~ might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector ~~may~~ might not be completed within one year because of the levels of approval required. This ~~raises~~ had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB ~~notes~~ had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB ~~has~~ had concerns that not depreciating assets for an extended period of time ~~may~~ 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 ~~may~~ might not provide relevant information for these transfers. However, the IPSASB ~~recognizes~~ had recognized that the measurement and disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ might not provide relevant information for public sector discontinued operations. However, the IPSASB ~~recognizes~~ had recognized that the disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ might result in entities following the requirements of IFRS 5 in circumstances where this ~~may~~ 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.

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.

…

Amendments to IPSAS 27, *Agriculture*

Paragraphs 34 and 48 are amended and paragraph 56H is added. New text is underlined, and deleted text is struck through.

…

Recognition and Measurement

…

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 market-determined prices or values are not available, and for which alternative estimates of fair value 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.**

…

Disclosures

…

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;**

…

(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) …

…

Effective Date

…

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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

…

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~~ 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*, ~~may~~ might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector ~~may~~ might not be completed within one year because of the levels of approval required. This ~~raises~~ had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB ~~notes~~ had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB ~~has~~ had concerns that not depreciating assets for an extended period of time ~~may~~ 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 ~~may~~ might not provide relevant information for these transfers. However, the IPSASB ~~recognizes~~ had recognized that the measurement and disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ might not provide relevant information for public sector discontinued operations. However, the IPSASB ~~recognizes~~ had recognized that the disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ might result in entities following the requirements of IFRS 5 in circumstances where this ~~may~~ 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.

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 6, 96, 116 and 117 are amended and paragraph 132L was added. New text is underlined, and deleted text is struck through.

…

Scope

…

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:

   (a) Intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11, *Construction Contracts, and* IPSAS 12, *Inventories*);

   …

   (h) Non-current intangible assets classified as held for sale (or 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*.

…

Intangible Assets with Finite Useful Lives

Amortization Period and Amortization Method

96. **The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset 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. Amortization shall cease 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. The amortization method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognized in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.**

…

Retirements and Disposals

…

116. Amortization of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated~~.~~ or is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44.

Disclosure

General

117. An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) **Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;**

(b) **The amortization methods used for intangible assets with finite useful lives;**

(c) **The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;**

(d) **The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;**

(e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

(i) **Additions, indicating separately those from internal development, those acquired separately, and those acquired through acquisitions;**

(ii) **~~Disposals~~<u>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</u>;**

(iii) …

…

Effective Date

…

132L. **<u>Paragraphs 6, 96, 116 and 117 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.</u>**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

…

Revision of IPSAS 31 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC11. <u>When IPSAS 31 was revised as a result of Part II of *Improvements to IPSAS 2015*</u> ~~Stakeholders~~ <u>stakeholders had</u> indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB <u>had</u> concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, ~~may~~ <u>might</u> only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector ~~may~~ <u>might</u> not be completed within one year because of the levels of approval required. This ~~raises~~ <u>had raised</u> questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB ~~notes~~ <u>had noted</u> that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB ~~has~~ <u>had</u> concerns that not depreciating assets for an extended period of time ~~may~~ <u>might</u> 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 ~~may~~ <u>might</u> not provide relevant information for these transfers. However, the IPSASB ~~recognizes~~ <u>had recognized</u> that the measurement and disclosure requirements in IFRS 5 ~~may~~ <u>might</u> 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 ~~may~~ might not provide relevant information for public sector discontinued operations. However, the IPSASB ~~recognizes~~ had recognized that the disclosure requirements in IFRS 5 ~~may~~ 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 ~~may~~ might result in entities following the requirements of IFRS 5 in circumstances where this ~~may~~ 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.

BC11A. 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. As a result, all the relevant references have been added.

…

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

Paragraph 131A and the associated heading and paragraph 154K are added. New text is underlined, and deleted text is struck through.

…

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS During the Period of Adoption

…

IPSAS 35, Consolidated Financial Statements

…

Non-controlling Interests

131A. A first-time adopter shall apply the following requirements of IPSAS 35 prospectively from the date of transition to IPSAS:

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

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

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

…

Effective Date

…

154K. **Paragraph 131A and the associated heading were added 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.**

Amendments to IPSAS 34, *Separate Financial Statements*

Paragraph 12 is amended and paragraph 32D is added. New text is underlined, and deleted text is struck through.

Preparation of Separate Financial Statements

…

12. **When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates either:**

    (a) **At cost;**

    (b) **In accordance with IPSAS 41; or**

    (c) **Using the equity method as described in IPSAS 36.**

    The entity shall apply the same accounting for each category of investments. Investments accounted for at cost or using the equity method shall be accounted for in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with IPSAS 41 is not changed in such circumstances.

…

Transitional Provisions

…

Effective Date

…

32D. **Paragraph 12 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.**

…

Amendments to IPSAS 35, *Consolidated Financial Statements*

COMPARISON WITH IFRS 10

IPSAS 35, *Consolidated Financial Statements* is drawn primarily from IFRS 10, *Consolidated Financial Statements* (issued in 2011, including amendments up to December 31, 2014). At the time of initially issuing this Standard, the IPSASB ~~has~~ had not considered the applicability to public sector entities of certain IFRS referred to in IFRS 10. These standards included:

- IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations;* and
- IFRS 9, *Financial Instruments.*

The IPSASB has subsequently issued IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* in May, 2022.

…

Amendments to IPSAS 36, *Investments in Associates and Joint Ventures*

Paragraph 21 is amended and paragraphs 25A and 25B, and the related heading and paragraph 51J are added. New text is underlined, and deleted text is struck through.

…

Equity Method

…

21. **~~An investment in an associate or a joint venture accounted for using the equity method shall be classified as a non-current asset.~~**Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

…

Application of the ~~equity method~~ Equity Method

…

Classification as ~~held~~ Held for ~~sale~~ Sale

25A. An entity shall apply IPSAS 44 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IPSAS 41 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

25B. When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

…

Effective Date and Transition

…

51J. **Paragraph 21 was amended and paragraphs 25A and 25B and the related heading were added 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.**

…

IPSAS 36—INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

CONTENTS

Amendments to IPSAS 38, *Disclosure of Interests in Other Entities*

Paragraphs AG12 and AG16 are amended and paragraphs 3A, 61D and AG16A are added. New text is underlined, and deleted text is struck through.

…

Scope

…

3. **This Standard shall be applied by an entity that has an interest in any of the following:**

   (a) **Controlled entities;**

   (b) **Joint arrangements (i.e., joint operations or joint ventures);**

   (c) **Associates; or**

   (d) **Structured entities that are not consolidated.**

3A Except as described in paragraph AG16A, the requirements in this Standard apply to an entity's interests listed in paragraph 3 that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.

…

Effective Date

…

61D. **Paragraphs AG12 and AG16 were amended and paragraphs 3A and AG16A were added 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.**

…

Application Guidance

…

AG12. For each joint venture and associate that is material to the reporting entity, an entity shall disclose:

   (a) Dividends or similar distributions received from the joint venture or associate; and

   (b) Summarized financial information for the joint venture or associate (see paragraphs AG14 and AG15) including, but not necessarily limited to:

      (i) Current assets;

      …

      (vii) ~~Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations~~ Post-tax surplus or deficit from discontinued operations; and

      (viii) …

…

AG16. An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

   (a) Revenue.

   …

   (c) ~~Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations~~ Post-tax surplus or deficit from discontinued operations.

(d) …

AG16A. When an entity's interest in a controlled entity, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IPSAS 44, *Non-current Assets Classified as Held for Sale and Discontinued Operations*, the entity is not required to disclose summarized financial information for that controlled entity, joint venture or associate in accordance with paragraphs AG10-AG16.

…

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraph 124 is amended and paragraphs 84A and the associated heading and 126F are added. New text is underlined, and deleted text is struck through.

…

The Acquisition Method of Accounting

…

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

…

Exceptions to the Recognition or Measurement Principles

…

Exceptions to the Measurement Principle

…

Assets Held for Sale

84A. The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* at fair value less costs to sell in accordance with paragraphs 22-26 of that Standard.

…

Disclosures

…

124. To meet the objective in paragraph 123, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

(a) If the initial accounting for an acquisition is incomplete (see paragraph 103) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognized in the financial statements for the acquisition thus have been determined only provisionally:

(i) The reasons why the initial accounting for the acquisition is incomplete;

(ii) The assets, liabilities, quantifiable ownership interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 107.

…

(d) A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

(i) The gross amount and accumulated impairment losses at the beginning of the reporting period.

(ii) Additional goodwill recognized during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IPSAS 44.

(iii) Adjustments resulting from the subsequent recognition of amounts during the reporting period in accordance with the relevant international or national accounting standard dealing with income taxes.

(iv) Goodwill included in a disposal group classified as held for sale in accordance with IPSAS 44 and ~~Goodwill~~ goodwill derecognized during the reporting period without having previously been included in a disposal group classified as held for sale.

(v) …

…

Effective Date and Transition

Effective Date

…

126F. **Paragraph 124 was amended and paragraph 84A and the associated heading were added 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.**

…

Amendments to IPSAS 43, Leases

Paragraph 78 is amended and paragraph 103A added. New text is underlined, and deleted text is struck through.

…

Lessor

…

Finance Leases

…

Subsequent Measurement

…

78. A lessor that classifies an asset under a finance lease as held for sale (or includes it in a disposal group that is classified as held for sale) applying ~~the relevant national or international accounting standard dealing with non-current assets held for sale and discontinued operations~~ IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* shall account for that asset in accordance with that Standard.

…

Effective Date and Transition

Effective Date

…

103A **Paragraph 78 was 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.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 44.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions on IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*. This Standard is based on IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (including amendments up to March 2017) issued by the International Accounting Standards Board (IASB). The Basis for Conclusions outlines only those areas where IPSAS 44 departs from the requirements of IFRS 5.

Background

BC2. IFRS 5 was issued by the IASB in March 2004 and its objective is to specify the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations. Prior to the issuance of this Standard there were no equivalent requirements in IPSAS for the accounting for non-current assets held for sale.

BC3. The IPSASB's *Strategy and Work Plan 2019-2023* identified a project to develop an IPSAS aligned with IFRS 5 as part of Theme B – 'Maintaining alignment with IFRS' which then led to the development of this Standard. The IPSASB approved the Project Brief for this Standard at the June 2020 IPSASB meeting.

BC4. The IPSASB considered whether the title of this Standard should differ from IFRS 5 but decided that there was no public sector reason to do so.

Scope

BC5. The IPSASB considered whether assets that are surplus to an entity's operational requirements, but where no decision as to their future (i.e., either sale, transfer, or scrap) has been taken, should be within the scope of this Standard. The IPSASB also considered whether non-current assets that are to be transferred, rather than sold, to another public sector entity should be within scope.

BC6. The IPSASB noted that this project is an IFRS alignment project. IFRS 5 is intended to apply only to non-current assets that will be sold. Specific criteria have to be met for non-current assets to be classified as held for sale. As a result of public consultation and other regulatory requirements, public sector asset disposals can take considerable periods of time. The IPSASB decided that while such assets may be surplus to operational needs for this extended period, they would not meet the criteria for classification as held for sale until compliance with the necessary consultation and other regulatory requirements have been met. Until the criteria have been met, such assets, and assets to be transferred to another public sector entity, would fall outside the scope of this Standard, and should be accounted for under the requirements of the relevant IPSAS.

BC7. When this Standard was issued, the IPSASB had also discussed whether disclosures requiring the carrying amount of surplus non-current assets or non-current assets that are to be transferred to other public sector entities should have been added to IPSAS 17, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The IPSASB had decided that, because these transactions were beyond the scope of IPSAS 44 (as noted above in BC6) and were not consequential amendments arising from this Standard, it was not appropriate to include a requirement for such disclosures in IPSAS 44. The IPSASB had also noted that IPSAS 17 encouraged disclosures for temporarily idle property, plant, and equipment, and property, plant, and equipment retired from active use that is not within the scope of IPSAS 44. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

Definitions

BC8. The IPSASB decided to replace the IFRS 5 definition of a 'cash-generating unit' with the definition in IPSAS 26, *Impairment of Cash-Generating Assets* to maintain consistency of terminology within IPSAS.

Measurement

BC9. The IPSASB considered whether there was any public sector reason to depart from the measurement requirements in IFRS 5. These requirements are that non-current assets classified as held for sale are to be measured at the lower of carrying amount and fair value less costs to sell. The IPSASB discussed whether non-current assets classified as held for sale should only be measured at fair value because the purpose of holding such assets is for financial capacity. It was noted that when public sector assets that are non-cash-generating and are held for their operational capacity are to be sold, the purpose of holding these assets changes from operational capacity to financial capacity, and fair value provides the most relevant value.

BC10. However, the IPSASB noted that, in circumstances where assets are measured using the historical cost model and the carrying amount is lower than the fair value less costs to sell, an entity would need to recognize an increase in value either as revenue or as a gain on revaluation. The IPSASB concluded that such an increase in value did not meet the recognition criteria for revenue nor was recognition as a gain on revaluation appropriate under the historical cost model. Further, this situation would not be unique to the public sector and so there was no reason to depart from the measurement requirement of IFRS 5 for this Standard.

BC11. The IPSASB also considered whether the measurement requirements in IFRS 5 should be adapted so that non-current assets that are to be sold in a negotiated agreement at a value other than fair value (for policy reasons) should be measured at the lower of carrying amount and net selling price. The IPSASB noted that private sector entities also sell assets at amounts other than fair value, and so there is no public sector reason to depart from the requirements of IFRS 5.

BC12. The IPSASB noted that IFRS 5 requires assets acquired in a business combination that meet the criteria to be classified as held for sale to be measured at fair value less costs to sell. However, in a public sector combination, assets can be acquired through an acquisition or an amalgamation. Assets acquired through a public sector acquisition are measured on acquisition at fair value; therefore, if they meet the criteria to be classified as held for sale, they are measured at fair value less costs to sell. However, assets acquired in a public sector amalgamation are measured at the carrying amount. Under the IFRS 5 requirements, if these assets met the criteria to be held for sale, they would be measured at fair value less costs to sell, and hence there may be an increase in value. Therefore, the IPSASB amended the requirements for assets acquired through a public sector amalgamation that met the criteria to be classified as held for sale: these should be measured at the lower of carrying amount and fair value less costs to sell.

Cross-Reference to IFRS 13, Fair Value

BC13. The IPSASB decided to refer to IFRS 13, *Fair Value* instead of the relevant national or international accounting standard dealing with measurement, where appropriate. In reaching this decision, the IPSASB noted that these references will be updated when a new IPSAS on Measurement is issued. IPSAS 46, *Measurement* was issued in May 2023, and references to IFRS 13 were updated.

Disclosure

BC14. The IPSASB decided that in the public sector, transparency and accountability are important when an entity decides to sell non-current assets. Therefore, when an asset is classified as held for sale and measured at a carrying amount that is materially lower than fair value, disclosure of the asset's fair value in the notes to the financial statements provides users with information relevant for holding the entity accountable. The IPSASB also noted that this was consistent with advice from members of the IPSASB Consultative Advisory

Group that information which allows users to hold the entity accountable for decisions regarding sales of non-current assets is in the public interest.

Effective Date

BC15. The IPSASB decided that IPSAS 44 should have an effective date for annual financial statements covering periods beginning on or after January 1, 2025, which aligns with the effective date for IPSAS 43, *Leases*. Earlier application permitted, but IPSAS 43, *Leases,* would need to be applied at the same time.

IMPLEMENTATION GUIDANCE

CONTENTS

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 44.

Availability for immediate sale (paragraph 12)

To qualify for classification as held for sale, a non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) (paragraph 12). A non-current asset (or disposal group) is available for immediate sale if a government entity currently has the intention and ability to transfer the asset (or disposal group) to a buyer in its present condition. Examples 1–3 illustrate situations in which the criterion in paragraph 12 would or would not be met.

Example 1

A government entity is committed to a plan to sell its municipal building and has initiated actions to locate a buyer.

(a) The government entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in paragraph 12 would be met at the plan commitment date.

(b) The government entity will continue to use the building until construction of a new municipal building is completed. The government entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the government entity (seller) demonstrates that the building is not available for immediate sale. The criterion in paragraph 12 would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

Example 2

A government entity is committed to a plan to sell a road repair operation and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted government road repair orders.

(a) The government entity intends to sell the road repair operation with its existing government road repair orders. Any uncompleted government road repair orders at the sale date will be transferred to the buyer and the buyer will repair government roads on a contract basis. The transfer of uncompleted government road repair orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 12 would be met at the plan commitment date.

(b) The government entity intends to sell the road repair operation, but without its existing road repair orders. The government entity does not intend to transfer the operation to a buyer until after the backlog of uncompleted government road repair orders are fulfilled. The delay in the timing of the transfer of the operation imposed by the government entity (seller) demonstrates that the operation is not available for immediate sale. The criterion in paragraph 12 would not be met until government road repair orders are completed, even if a firm purchase commitment for the future transfer of the operation were obtained earlier.

Example 3

A government entity seizes, due to the owner failing to pay taxes, a property comprising land and buildings that it intends to sell.

(a) The government entity does not intend to transfer the property to a buyer until after it completes renovations to increase the property's sales value. The delay in the timing of the transfer of the property imposed by the government entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 12 would not be met until the renovations are completed.

(b) After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the government entity becomes aware of environmental damage requiring remediation. The government entity still intends to sell the property. However, the government entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 12 would not continue to be met as the property is no longer available for immediate sale. The property would be reclassified as held and used in accordance with paragraph 34.

Completion of sale expected within one year (paragraph 13)

Example 4

To qualify for classification as held for sale, the sale of a non-current asset (or disposal group) must be highly probable (paragraph 12), and transfer of the asset (or disposal group) must be expected to qualify for recognition as a completed sale within one year (paragraph 13). That criterion would not be met if, for example:

(a) A government entity that supplies computer equipment to individual departmental agencies, holds obsolete equipment and it has not yet been determined whether the equipment will be sold to employees, transferred to another public sector entity at no cost or donated to a not-for-profit entity.

(b) A government entity is committed to a plan to 'sell' a property that is in use as part of a sale and leaseback transaction, but the transfer does not qualify to be accounted for as a sale in accordance with paragraph 98 of IPSAS 43, *Leases* and, instead, will be accounted for in accordance with paragraph 102 of IPSAS 43.

Exceptions to the criterion that the sale should be expected to be completed in one year (paragraphs 13 and AG1)

An exception to the one-year requirement in paragraph 13 applies in limited situations in which the period required to complete the sale of a non-current asset (or disposal group) will be (or has been) extended by events or circumstances beyond an entity's control and specified conditions are met (paragraphs 15 and AG1). Examples 5–7 illustrate those situations.

Example 5

A government entity in the power generating industry is committed to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale requires prospective buyers to obtain regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is highly probable within one year. In that situation, the conditions in paragraph AG1(a) for an exception to the one-year requirement in paragraph 13 would be met.

Example 6

A government entity is committed to a plan to sell a government manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. The government entity is required by the buyer to make good the damage, which will extend the period required to complete the sale beyond one year. However, the government entity has initiated actions to make good the damage, and satisfactory rectification of the damage is highly probable. In that situation, the conditions in paragraph AG1(b) for an exception to the one-year requirement in paragraph 13 would be met.

Example 7

A government entity is committed to a plan to sell a non-current asset and classifies the asset as held for sale at that date.

(a) During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the government entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraphs 12 and 13 are therefore met. In that situation, the conditions in paragraph AG1(c) for an exception to the one-year requirement in paragraph 13 would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.

(b) During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The government entity believes that the market conditions will improve and has not further reduced the price of the asset. The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by paragraph 12. In addition, paragraph 13 also requires an asset to be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph AG1(c) for an exception to the one-year requirement in paragraph 13 would not be met. The asset would be reclassified as held and used in accordance with paragraph 34.

Determining whether an asset has been abandoned (paragraph 20 and 21)

Paragraphs 20 and 21 of this Standard specify requirements for when assets are to be treated as abandoned. Example 8 illustrates when an asset has not been abandoned.

Example 8

A government entity ceases to use a storage facility because demand for storage has declined. However, the storage facility is maintained in workable condition, and it is expected that it will be brought back into use if demand picks up. The storage facility is not regarded as abandoned.

Presenting a discontinued operation that has been abandoned (paragraph 20)

Paragraph 20 of this Standard prohibits assets that will be abandoned from being classified as held for sale. However, if the assets to be abandoned are a major operation or geographical area of operations, they are reported in discontinued operations at the date at which they are abandoned. Example 9 illustrates this.

Example 9

In October 20X5 a government entity decides to abandon all its ammunition manufacturing facilities, which constitutes a major operation. All work stops at the ammunition manufacturing facilities during the year ended 31 December 20X6. In the financial statements for the year ended 31 December 20X5, results and cash flows of the ammunition manufacturing facilities are treated as continuing operations. In the financial statements for the year ended 31 December 20X6, the results and cash flows of the ammunition manufacturing facilities are treated as discontinued operations and the government entity makes the disclosures required by paragraphs 42 and 43 of this Standard.

Allocation of an impairment loss on a disposal group (paragraph 31)

Paragraph 31 of this Standard requires an impairment loss (or any subsequent gain) recognized for a disposal group to reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Standard, in the order of allocation set out in paragraphs 91 and 110 of IPSAS 26. Example 10 illustrates the allocation of an impairment loss on a disposal group.

Example 10

A government entity plans to dispose of a group of its assets (as an asset sale). The assets form a disposal group, and are measured as follows:

	Carrying amount at the end of the reporting period before classification as held for sale	**Carrying amount as remeasured immediately before classification as held for sale**
	CU[(a)]	**CU**
Goodwill	1,500	1,500
Property, plant, and equipment (carried at revalued amounts)	4,600	4,000
Property, plant, and equipment (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investments in equity instruments	1,800	1,500
Total	**16,000**	**14,900**

(a) In this guidance, monetary amounts are denominated in 'currency units (CU)'.

The government entity recognizes the loss of CU1,100 (CU16,000 – CU14,900) immediately before classifying the disposal group as held for sale.

The government entity measures the fair value less costs to sell of the disposal group as CU13,000. Because a government entity measures a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell, the government entity recognizes an impairment loss of CU1,900 (CU14,900 – CU13,000) when the group is initially classified as held for sale.

The impairment loss is allocated to non-current assets to which the measurement requirements of this Standard are applicable. Therefore, no impairment loss is allocated to inventories and investments in equity instruments. The loss is allocated to the other assets in the order of allocation set out in paragraphs 91 and 110 of IPSAS 26.

The allocation can be illustrated as follows:

	Carrying amount as remeasured immediately before classification as held for sale	**Allocated impairment loss**	**Carrying amount after allocation of impairment loss**
	CU	**CU**	**CU**
Goodwill	1,500	(1,500)	0

	Carrying amount as remeasured immediately before classification as held for sale	**Allocated impairment loss**	**Carrying amount after allocation of impairment loss**
	CU	**CU**	**CU**
Property, plant, and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant, and equipment (carried at cost)	5,700	(235)	5,465
Inventories	2,200	–	2,200
Investments in equity instruments	1,500	–	1,500
Total	**14,900**	**(1,900)**	**13,000**

First, the impairment loss reduces any amount of goodwill. Then, the residual loss is allocated to other assets pro rata based on the carrying amounts of those assets.

Presenting discontinued operations in the statement of financial performance (paragraph 42)

Paragraph 42 of this Standard requires an entity to disclose a single amount in the statement of financial performance for discontinued operations with an analysis in the notes or in a section of the statement of financial performance separate from continuing operations. Example 11 illustrates how these requirements might be met.

Example 11

XYZ GOVERNMENT ENTITY – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 20X2 (illustrating the classification of expenses by function)

(in thousands of currency units)	**20X2**	**20X1**
Continuing operations		
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		
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
Discontinued operations		
Surplus for the period from discontinued operations(a)	X	X
Surplus for the period	X	X
Attributable to:		
Owners of the controlling entity		
Surplus for the period from continuing operations	X	X
Surplus for the period from discontinued operations	X	X
Surplus for the period attributable to owners of the controlling entity	X	X
Non-controlling interests		
Surplus for the period from continuing operations	X	X
Surplus for the period from discontinued operations	X	X
Surplus for the period attributable to 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.

(a) The required analysis would be given in the notes.

Presenting non-current assets or disposal groups classified as held for sale (paragraph 48)

Paragraph 48 of this Standard requires an entity to present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are also presented separately from other liabilities in the statement of financial position. Those assets and liabilities are not offset and presented as a single amount. Example 12 illustrates these requirements.

Example 12

At the end of 20X5, a government entity decides to dispose of part of its assets (and directly associated liabilities). The disposal, which meets the criteria in paragraphs 12 and 13 to be classified as held for sale, takes the form of two disposal groups, as follows:

	Carrying amount after classification as held for sale	
	Disposal group I: CU	Disposal group II: CU
Property, plant, and equipment	4,900	1,700
Investments in equity instruments	1,400[(a)]	–
Liabilities	(2,400)	(900)
Net carrying amount of disposal group	**3,900**	800

The presentation in the government entity's statement of financial position of the disposal groups classified as held for sale can be shown as follows:

(a) An amount of CU400 relating to these assets has been recognized in the statement of changes in net assets/equity and accumulated in net assets/equity.

	20X5	**20X4**
ASSETS		
Non-current assets		
AAA	X	X
BBB	X	X
CCC	X	X
	X	X
Current assets		
DDD	X	X
EEE	X	X
	X	X
Non-current assets classified as held for sale	8,000	–

	20X5	20X4
	X	X
Total assets	X	X
NET ASSETS/EQUITY AND LIABILITIES		
Net Assets/Equity attributable to owners of the controlling entity		
FFF	X	X
GGG	X	X
Amounts recognized in statement of changes in net assets/equity and accumulated in net assets/equity relating to non-current assets held for sale	400	–
	X	X
Non-controlling interests	X	X
Total net assets/equity	X	X
Non-current liabilities		
HHH	X	X
III	X	X
JJJ	X	X
	X	X
Current liabilities		
KKK	X	X
LLL	X	X
MMM	X	X
Liabilities directly associated with non-current assets classified as held for sale	3,300	–
	X	X
Total liabilities	X	X
Total net assets/equity and liabilities	X	X

The presentation requirements for assets (or disposal groups) classified as held for sale at the end of the reporting period do not apply retrospectively. The comparative statements of financial position for any previous periods are therefore not re-presented.

Measuring and presenting controlled entities acquired with a view to resale and classified as held for sale (paragraph 17)

A controlled entity acquired with a view to sale is not exempt from consolidation in accordance with IPSAS 35, *Consolidated Financial Statements*, unless the acquirer is an investment entity, as defined in IPSAS 35, and is required to measure the investment in that controlled entity at fair value through surplus or deficit. However, if it meets the criteria in paragraph 17, it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

Example 13

Government entity A acquires an entity H, which is a controlling entity with two controlled entities, CE1 and CE2. CE2 is acquired exclusively with a view to sale and meets the criteria to be classified as held for sale. In accordance with paragraph 41(c), CE2 is also a discontinued operation.

The fair value less costs to sell of CE2 is CU135. Government entity A accounts for CE2 as follows:

- Initially, government entity A measures the identifiable liabilities of CE2 at fair value, say at CU40
- Initially, government entity A measures the acquired assets as the fair value less costs to sell of CE2 (CU135) plus the fair value of the identifiable liabilities (CU40), i.e., at CU175
- At the end of the reporting period, government entity A remeasures the disposal group at the lower of its cost and fair value less costs to sell, say at CU130. The liabilities are remeasured in accordance with applicable IPSAS, say at CU35. The total assets are measured at CU130 + CU35, i.e., at CU165
- At the end of the reporting period, government entity A presents the assets and liabilities separately from other assets and liabilities in its consolidated financial statements as illustrated in Example 12 *Presenting non-current assets or disposal groups classified as held for sale*, and
- In the statement of financial performance, government entity A presents the total of the post-tax surplus or deficit of CE2 and the post-tax gain or loss recognized on the subsequent remeasurement of CE2, which equals the remeasurement of the disposal group from CU135 to CU130.

Further analysis of the assets and liabilities or of the change in value of the disposal group is not required.

COMPARISON WITH IFRS 5

IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* is drawn primarily from IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (issued in 2004, including amendments made up to May 2017).

The main difference between IPSAS 44 and IFRS 5 are as follows:

- IPSAS 44 requires disclosure in the notes of the fair value of a non-current asset (or disposal group) classified as held for sale if fair value is materially different to the carrying amount;
- IPSAS 44 replaces the IFRS 5 definition of a cash-generating unit with the definition of a cash-generating unit defined in IPSAS 26, *Impairment of Cash-Generating Assets*;
- IPSAS 44, acknowledges that public sector combinations differ from business combinations and can be either an acquisition or an amalgamation. Therefore, IPSAS 44 requires assets acquired in a public sector amalgamation that are to immediately be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell; and
- IPSAS 44 uses different terminology in certain instances from IFRS 5. The most significant examples are the use of the terms “operation”, “public sector combination”, “revenue”, “owner”, “controlling entity” and “controlled entity”. The equivalent terms in IFRS 5 are “business”, “business combination”, “income”, “shareholder”, “parent” and “subsidiary”.

COMPARISON WITH GFS

In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- GFS uses market value as the general valuation approach for all assets. Under IPSAS 44, a non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Market value can be used as a technique for estimating fair value under IPSAS.
- Under IPSAS 44, a non-current asset (or disposal group) is classified as held for sale when it is available for immediate sale in its present condition, and its sale is highly probable, subject only to terms that are usual for sales of such assets (or disposal groups). GFS does not have this type of classification.
- IPSAS 44 includes disclosure requirements that are not present in GFS.

IPSAS 45—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.

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IPSAS 45—PROPERTY, PLANT, AND EQUIPMENT

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 45, *Property, Plant, and Equipment* was issued in May 2023.

Since then, IPSAS 45 has been amended by the following IPSAS:

- IPSAS 47, *Revenue* (issued May 2023)

Table of Amended Paragraphs in IPSAS 45

Paragraph Affected	How Affected	Affected By
64	Amended	IPSAS 47 May 2023
67	Amended	IPSAS 47 May 2023
68	Amended	IPSAS 47 May 2023
85A	New	IPSAS 47 May 2023

May 2023

IPSAS 45, PROPERTY, PLANT, AND EQUIPMENT

CONTENTS

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 the recognition of the assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them.

Scope (see paragraphs AG1-AG7)

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 when another Standard requires or permits a different accounting treatment.**

3. 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*; and

   (d) The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with measurement of exploration and evaluation assets).

   However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 3(a), 3(b) and 3(d).

4. An entity using the historical cost model for investment property in accordance with IPSAS 16, *Investment Property* shall use the historical cost model in this Standard for owned investment property.

Definitions (see paragraphs AG8-AG11)

5. **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 after deducting any accumulated depreciation and accumulated impairment losses.

   <u>Class of property, plant, and equipment</u> 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.

   <u>Depreciable amount</u> is the cost of an asset, or other amount substituted for cost, less its residual value.

   <u>Depreciation</u> is the systematic allocation of the depreciable amount of an asset over its useful life.

   <u>Property, plant, and equipment</u> are tangible assets 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.**

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.

The following terms are defined and are used in this Standard with the same meaning as in IPSAS 46, *Measurement*:

(a) **Historical cost;**

(b) **Current operational value; and**

(c) **Fair value.**

The term recoverable service amount is defined in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and is used in this Standard with the same meaning as in IPSAS 21.

The term recoverable amount is defined in IPSAS 26, *Impairment of Cash-Generating-Assets* and is used in this Standard with the same meaning as in IPSAS 26.

The term bearer plant is defined in IPSAS 27 and is used in this Standard with the same meaning as in IPSAS 27.

Recognition (see paragraphs AG12-AG16)

6. **An item of property, plant, and equipment shall be recognized 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 item can be measured reliably[1].**

7. If an entity holds heritage property, plant, and equipment that meets the definition of an asset, but which does not meet the recognition criteria in paragraph 6(b), information as required by paragraph 77 shall be disclosed in the notes to the financial statements. When information about the cost or current value of the heritage property, plant, and equipment becomes available, the entity shall, from that date, recognize the heritage property, plant, and equipment in accordance with paragraph 6 and apply the measurement principles in this Standard.

8. 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 (a) disaggregate individually significant items, such as floors of a building, into separate units of account when the objective for which the entity holds the building is both for operational and financial capacity or (b) aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value.

[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, Presentation of Financial Statements discusses the transitional approach to the explanation of reliability.

9. 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, construct or develop 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.

10. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition, construction, or development 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, constructed, or developed. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized 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 and IPSAS 26.

Initial Measurement (see paragraphs AG17-AG19)

11. **An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, as described in paragraphs 14-19, unless it is acquired through a non-exchange transaction.**

12. **Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost. An entity shall apply IPSAS 46 when measuring deemed cost of an item of property, plant, and equipment.**

13. 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 deemed cost consistent with the requirements of paragraph 12, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 29, and the supporting Application Guidance, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods.

Elements of Cost

14. 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; and

(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.

15. Examples of directly attributable costs are:

(a) Costs of employee benefits (as defined in IPSAS 39, *Employee Benefits*) arising directly from the acquisition, construction, or development 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.

16. 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 this Standard are recognized and measured in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

17. 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.

18. 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.

19. 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.

Measurement of Cost

20. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 12, its deemed cost at the recognition date. If payment is deferred and the time value of money is material, 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, *Borrowing Costs*.

21. 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 its current value unless the exchange transaction lacks commercial substance, or the current 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 current value, its cost is measured at the carrying amount of the asset given up.

22. 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 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 current value of the assets exchanged.

For the purpose of determining the portion of the entity's operations affected by the transaction, as in paragraph 22(b), the entity calculates the present value of the expected cash flows, (or post-tax cash flows when tax applies), to arise from the continuing use of an asset and from its disposal at the end of its useful life. The result of these analyses may be clear without an entity having to perform detailed calculations.

23. The current value of an asset is reliably measurable if the variability in the range of reasonable current value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed and used when measuring current value. If an entity is able to measure reliably the current value of either the asset received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

Subsequent Measurement (see paragraphs AG20-AG36)

24. **An entity shall choose either the historical cost model in paragraph 26 or the current value model in paragraph 27 as its accounting policy and shall apply that policy to an entire class of property, plant, and equipment.**

25. **When the measurement requirements are applied to the item of property, plant, and equipment after recognition, an entity shall apply IPSAS 46.**

Historical Cost Model

26. **After recognition, an item of property, plant, and equipment shall be carried at its historical cost, less any accumulated depreciation and any accumulated impairment losses.**

Current Value Model (see paragraphs AG20-AG23)

27. **After recognition, an item or part of an item of property, plant, and equipment whose current value can be measured reliably shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. The primary objective for which an entity holds an item or part of an item of property, plant, and equipment determines the current value measurement basis. An item or part of an item of property, plant, and equipment held primarily for its operational capacity is measured at current operational value, and when it is held primarily for its financial capacity is measured at fair value.**

28. The measurement basis used to measure current value, either current operational value or fair value, shall be applied consistently to an item or part of an item of property, plant, and equipment at each measurement date, unless the primary objective for which the entity holds an item or part of an item of property, plant, and equipment has changed. In that case a change in the current value measurement basis, from current operational value to fair value, or vice versa, is appropriate.

29. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 36-38.**

30. The frequency of revaluations depends upon the changes in current values of the items of property, plant, and equipment being revalued. When the current 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 current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in current value. Instead, it may be necessary to revalue the item only every three or five years.

31. 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 36 and 37.

32. **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.**

33. Impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26 do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.

34. 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) Machinery;

    (d) Ships;

    (e) Aircraft;

    (f) Weapons systems;

    (g) Motor vehicles;

    (h) Furniture and fixtures;

    (i) Office equipment;

(j) Oil rigs;

(k) Bearer plants;

(l) Heritage collections; and

(m) Infrastructure.

When grouping property, plant, and equipment into classes, an entity may identify items with similar nature, but held for different functions, or vice versa. For example, while various parcels of land might be similar in nature, some may be held for agricultural purposes and others for commercial purposes. This may result in the entity identifying two classes of land and presenting information using historical cost for one class and current value for the other.

35. 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.

36. **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.**

37. **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.**

38. **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.**

39. 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.

40. Guidance on the effects of 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 (see paragraphs AG24-AG36)

41. **Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.**

42. 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.

43. 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.

44. 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.

45. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**

46. 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 (see paragraphs AG25-AG27)

47. **The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**

48. **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*.**

49. Depreciation is recognized even if the current 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/or the asset tested for impairment in accordance with paragraph 59, and adjusted accordingly.

50. 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 indefinite useful life and therefore is not depreciated. Buildings generally have a finite 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.

51. If the carrying amount 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 finite useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Finite and Indefinite Useful Lives (see paragraphs AG28-AG32)

52. An entity shall assess whether the useful life of property, plant, and equipment is finite or indefinite and, if finite, the length of, or number of production or similar units constituting that useful life. Land usually has an indefinite useful life. There is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. Property, plant, and equipment shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over

which the asset is expected to provide service potential to, or be used to generate net cash inflows for the entity.

53. An item of property, plant, and equipment with a finite useful life is depreciated. An item of property, plant, and equipment with an indefinite useful life is not depreciated.

54. The term “indefinite” does not mean “infinite.” The useful life of property, plant, and equipment should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means that they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projections of those factors. For example, a conclusion that the useful life of property, plant, and equipment is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current standard of performance. Nor should such a conclusion depend on preservation actions for which there is no realistic likelihood under present or projected budget constraints.

55. The useful life of an item of property, plant, and equipment may be very long or even indefinite. Uncertainty about an asset’s useful life when it is very long does not justify choosing a life that is unrealistically short.

Annual Impairment Reviews for Assets with Indefinite Useful Lives

56. An entity is required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21 and IPSAS 26.

Depreciation Method (see paragraphs AG33-AG34)

57. **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.**

58. **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.**

Impairment

59. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, 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

60. **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.**

61. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase, construction, or development 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, constructed, or developed as replacement is determined in accordance with this Standard.

Derecognition

62. **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.**

63. **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).**

64. 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, *Revenue*. IPSAS 43 applies to disposal by a sale and leaseback.

65. If, under the recognition principle in paragraph 6, 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, constructed, or developed.

66. **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.**

67. The amount of consideration to be included in the surplus or deficit arising from the derecognition 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.

68. 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. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.

Disclosure

General Disclosure for Property, Plant, and Equipment

69. **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 29, 36, and 37 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.**

70. **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 or development; and**

(c) **The amount of contractual commitments for the acquisition, construction, or development of property, plant, and equipment.**

71. **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 18 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.**

72. 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.

73. 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.

74. **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 revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**

(d) **The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and**

(e) **The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.**

75. 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 69(e)(iv)-69(e)(vi).

76. 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 historical cost model is used, the current value (current operational value or fair value) of property, plant, and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment (see paragraphs AG37-AG38)

77. **Where heritage property, plant, and equipment or a class of heritage property, plant, and equipment is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:**

(a) **The difficulties in obtaining a reliable measurement that prevented recognition; and**

(b) **The significance of the unrecognized heritage property, plant, and equipment in relation to delivery of the entity's objectives.**

78. Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the disclosure requirements in paragraphs 69-76 and 79-84 will apply.

Current Value Measurement

79. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For property, plant, and equipment that are measured at current operational value or fair value in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.**

(b) **For fair value measurements using significant unobservable inputs (Level 3), or current operational value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

80. To meet the objectives in paragraph 79, 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 Standard are insufficient to meet the objectives in paragraph 79, an entity shall disclose additional information necessary to meet those objectives.

81. To meet the objectives in paragraph 79, an entity shall disclose, at a minimum, the following information for each class of property, plant, and equipment (see paragraph 82 for information on determining appropriate classes of property, plant, and equipment for current value measurement disclosures) measured at current operational value or fair value in the statement of financial position after initial recognition:

(a) The current operational value or fair value measurement at the end of the reporting period;

(b) If there has been a change in measurement basis (e.g., changing from current operational value to fair value), the entity shall disclose that change and the reason(s) for making it;

(c) For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs. For 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);

(d) For current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g., changing from a cost approach to a market approach or the use of an additional valuation 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 current operational value or fair value measurements estimated using significant unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or 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 current operational value or 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 current operational value or fair value measurement and are reasonably available to the entity;

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant 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, and sales (each of those types of changes disclosed separately);

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value estimated using significant unobservable inputs, 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 items of property, plant, and equipment 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 fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant 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 current operational value or fair value measurements from period to period); and

(h) For fair value measurements categorized within Level 3 of the fair value hierarchy or for current operational value measurements estimated using significant unobservable inputs a narrative description of the sensitivity of the current operational value or 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 current operational value or fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the current operational value or 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 current operational value or 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).

82. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of property, plant, and equipment (see paragraph 34) is required on the basis of (a) the measurement bases applied, and (b) the level of the fair value hierarchy within which the fair value measurement is categorized, or the extent to which the current operational value uses observable or unobservable inputs.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of property, plant, and equipment for which disclosures about current operational value or fair value measurements should be provided requires judgment. A class of property, plant, and equipment 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.

83. For each class of property, plant, and equipment measured on the historical cost basis in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 81(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 current operational value or fair value measurements estimated using significant unobservable inputs, required by paragraph 81(d). For such property, plant, and equipment, an entity does not need to provide the other current value measurement disclosures required by this Standard.

84. An entity shall present the quantitative current value measurement disclosures required by this Standard in a tabular format unless another format is more appropriate.

Effective Date and Transition

Effective Date

85. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted for entities that apply IPSAS 43, IPSAS 44, and IPSAS 46 at or before the date of initial application of the Standard. If an entity applies this Standard for a period beginning before January 1, 2025, it shall disclose that fact.**

85A. **Paragraphs 64, 67, and 68 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.**

86. When an entity adopts the accrual basis 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.

Transition

87. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3 except that:**

(a) **An entity may elect to measure heritage assets at their deemed cost when reliable cost information about these assets is not available at the date of application of this Standard.**

(b) **If, on initial application of this Standard, there is a difference between the previous carrying amount at fair value and the new carrying amount at fair value or current operational value, an entity shall recognize that difference as an adjustment to the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) without restatement of comparative information.**

88. **For entities that have previously applied IPSAS 17 (2006), *Property, Plant, and Equipment* the requirements of paragraphs 21-22 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.**

Withdrawal of IPSAS 17 (2006)

89. This Standard supersedes IPSAS 17 issued in 2006. IPSAS 17 remains applicable until IPSAS 45, *Property, Plant, and Equipment* is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of the IPSAS 45, Property, Plant, and Equipment.

Scope (see paragraphs 2-4)

AG1. This Standard applies to all property, plant, and equipment including:

(a) Heritage;

(b) Infrastructure;

(c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*; and

(d) Weapons systems.

Heritage Assets

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

AG3. Heritage assets typically have the following distinguishing characteristics:

(a) They have restrictions on their use and/or disposal;

(b) They are irreplaceable; and

(c) They have long and sometimes indefinite useful lives.

Infrastructure Assets

AG4. Some property, plant, and equipment are described as infrastructure assets because they comprise a number of assets that make up networks or systems that serve the community at large. Generally, infrastructure assets have long lives because the number of assets that make up these networks or systems are continually maintained, replaced and refurbished. If a number of these assets were removed, the network or system may not achieve its service potential objective.

AG5. Infrastructure assets typically have the following distinguishing characteristics:

(a) They are networks or systems; and

(b) They have long useful lives.

AG6. Although not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Examples include:

(a) Electricity transmission networks, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities;

(b) Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and

(c) Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps, and treatment plants.

Weapons Systems

AG7. Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognized 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.

Definitions (see paragraph 5)

Property, Plant, and Equipment as Assets

AG8. In the public sector, there may be uncertainty whether certain items of property, plant, and equipment are an asset as defined in IPSAS 1, *Presentation of Financial Statements*. This is because to be recognized as an asset, an item of property, plant, and equipment must meet all three criteria of an asset: a resource, presently controlled by the entity and arose from a past transaction or other past event.

AG9. Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity's perspective when those services contribute to achieving the entity's service delivery and other objectives. For example, heritage items that are used purely for the benefit of the public can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Where an entity's objectives are to provide heritage-related services such as the appreciation and study of heritage, the entity holds heritage items to achieve those objectives and the heritage items have service potential and are resources from the entity's perspective. Similarly, infrastructure assets that are used to deliver public services (e.g., road networks or water systems) will be resources to an entity that holds them if those services contribute to achieving the entity's service delivery and other objectives.

AG10. In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict others to access the resource;

(c) The means to ensure that the resource is used to achieve its objectives; or

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

An entity is more likely to demonstrate control if it satisfies most of these indicators. However, assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

AG11. No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances, an entity considers substance over form in determining whether it controls an asset.

Recognition (see paragraphs 6-10)

Spare Parts, Stand-By Equipment, and Servicing Equipment

AG12. Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this Standard when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory (see IPSAS 12, *Inventories*).

Subsequent Costs

AG13. Under the recognition principle in paragraph 6, 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.

AG14. 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. Under the recognition principle in paragraph 6, 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 62-68).

AG15. 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 the 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, constructed, or developed. 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, constructed, or developed.

Subsequent Costs on Unrecognized Heritage Property, Plant, and Equipment

AG16. An entity recognizes subsequent expenditure on heritage property, plant, and equipment in accordance with the recognition principle in paragraph 6. Recognition of such subsequent expenditure as an asset is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. If the subsequent expenditure relates to heritage property, plant, and equipment, that was not recognized initially, because its cost or current value could not be measured reliably, it should nonetheless be reviewed in light of paragraph 6 to determine whether or not it meets the recognition principle and should be recognized as an asset.

Initial Measurement (see paragraphs 11-23)

Elements of Cost

AG17. 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 an operation in a new location or with a new class of purchasers (including costs of staff training);

(d) Administration and other general overhead costs; and

(e) Costs of day-to-day servicing or repairs and maintenance.

AG18. 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.

AG19. 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.

Subsequent Measurement (see paragraphs 24-61)

Current Value Model (Paragraphs 27-40)

AG20. After recognition, an item or part of an item of property, plant, and equipment whose current value can be measured in a faithfully representative manner may be carried at a revalued amount, being its:

(a) Current operational value; or

(b) Fair value;

at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Financial and Operational Capacity

AG21. The primary objective for which an entity holds an item or part of an item of property, plant, and equipment is an important consideration when determining the current value measurement basis. An item or part of an item of property, plant, and equipment held for its:

(a) Operational capacity supports the provision of services in future periods through physical and other resources. This requires information on the value of the item or part of an item of property, plant, and equipment as it is currently used by the entity. An item or part of an item of property, plant, and equipment held with the primary objective of service delivery is held for its operational capacity and is measured at current operational value; and

(b) Financial capacity provides an entity with the means to fund its activities. This requires information on the amount that would be received on the sale of the asset or in the revenue it generates in use. An item or part of an item of property, plant, and equipment held with the primary objective of generating a financial return is held for its financial capacity and is measured at fair value.

AG22. In certain instances, an item or part of an item of property, plant, and equipment may generate a financial return 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. In this instance, the disposal waste plant would be measured at current operational value.

AG23. In some cases, it may not be clear whether the intended primary objective of holding an item or part of an item of property, plant, and equipment is for its operational or financial capacity. Judgment is needed. An entity develops criteria so that it can exercise judgment consistently in concluding whether an item or part of an item of property, plant, and equipment is held primarily for its operational or financial capacity. When the intended primary objective of holding an item or part of an item of property, plant, and equipment cannot be determined, given the overall objectives of most public sector entities, the presumption is that an item or part of an item of property, plant, and equipment is held for its operational capacity.

Depreciation (see paragraphs 41-58)

AG24. 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, it may be required to depreciate separately the substructure and the surface of a road. 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.

Depreciable Amount and Depreciation Period (see paragraphs 47-51)

AG25. 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.

AG26. 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.

AG27. 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, *Non-current Assets Held for Sale and Discontinued Operations* and the date when 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.

Finite and Indefinite Useful Lives (see paragraphs 52-55)

AG28. The useful lives of property, plant, and equipment, including buildings, are generally finite. However, there are circumstances in which property, plant, and equipment could have an indefinite useful life. For example, a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset could be considered to have an indefinite useful life, so long as those conditions continue to apply.

AG29. Given the history of rapid changes in technology, it will often be the case that computers and other property, plant, and equipment susceptible to technological obsolescence have short useful lives. Expected future reductions in the selling price of an item that was produced using property, plant, and equipment could indicate the expectation of technological 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.

AG30. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Another example of land with a finite useful life is when land is being encroached by rising sea levels with the result that the entity expects that, within a finite period of time, the land will no longer be useable due either to a severe and continual risk of regular flooding or actual submersion beneath the water.

AG31. An entity that controls land that is being consumed as a result of, for example, mining or quarrying activities will need to consider the period over which economic benefits or service potential are expected to be derived from, and the effect of, carrying out those activities on the value of the land to determine the appropriate depreciable period and amount.

AG32. Where land is being lost or displaced as a result of, for example, coastline erosion, the entity will need to apply:

(a) The derecognition requirements in paragraphs 62-68 of this Standard; or

(b) The impairment requirement in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets* depending on the circumstances.

Depending on the factors associated with the loss or displacement of land, an entity may need to consider the appropriateness of depreciating the land in future reporting periods, and should continue to assess for impairment in accordance with the requirements of this Standard.

Depreciation Method (see paragraphs 57-58)

AG33. 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.

AG34. 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.

Depreciation – Useful Life of an Asset (see paragraphs 41-55)

AG35. 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, economic, political, social, and legal factors may also affect the useful life. Technical or commercial obsolescence and wear and tear while an asset remains idle may also result in the diminution of the economic benefits or service potential that might otherwise have been obtained from the asset. The useful life is the shorter of the periods identified through consideration of these factors. Consequently, the following factors are considered in determining the useful life of an asset:

(a) Expected usage of the asset, which 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) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;

(d) 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;

(e) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases;

(f) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

(g) The stability of the industry in which the asset operates and changes in the market or government and service recipients' demand for the products or services output from the asset;

(h) Expected actions by competitors or potential competitors; and

(i) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

AG36. 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.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment when Cost or Current Value Cannot be Measured Reliably (see paragraphs 77-78)

AG37. The disclosures identified in paragraph 77 for unrecognized heritage property, plant, and equipment should ensure that, when read in the context of information about recognized property, plant, and equipment, the financial statements provide useful and relevant information about the entity's overall holding of property, plant, and equipment, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG38. These disclosures may be presented in aggregate for groups or classes of property, plant, and equipment, provided this aggregation does not obscure significant information.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 7, 92, 94, 101, 125C, 134, and 148 are amended. Paragraph 153O is added. New text is underlined, and deleted text is struck through.

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

…

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 17~~ IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*);**

(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).**

Information to be Presented on the Face of the Statement of Financial Position

…

92. The use of different measurement ~~bases~~ 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 17~~ IPSAS 45, ~~*Property, Plant, and Equipment*~~.

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

…

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 17~~ IPSAS 45;

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, 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.

Surplus or Deficit for the Period

…

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 17~~ 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).

Statement of Changes in Net Assets/Equity

…

125C. Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with ~~IPSAS 17~~ IPSAS 45 or IPSAS 31 or 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 17~~ IPSAS 45 or IPSAS 31). 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.

Disclosure of Accounting Policies

…

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 fair value 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 17~~ 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.

Key Sources of Estimation Uncertainty

…

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 17~~ IPSAS 45 requires disclosure of ~~significant assumptions~~ measurement techniques and inputs applied in ~~estimating~~ measuring current operational values and fair values of revalued items of property, plant, and equipment.

Effective date

…

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.**

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended. Paragraph 63J is added. New text is underlined, and deleted text is struck through.

Operating Activities

…

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 or 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 discontinuing 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 ~~66~~68 of ~~IPSAS 17~~ 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.

Effective Date

…

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.**

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

Paragraph 22, IG14, IG15, IG16 and IG17 are amended. Paragraph 59E is added. New text is underlined, and deleted text is struck through.

…

Changes in Accounting Policies

…

22. **The initial application of a policy to revalue assets in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*, or IPSAS 31, *Intangible Assets*, is a change in accounting policy to be dealt with as a revaluation in accordance with ~~IPSAS 17~~ IPSAS 45 or IPSAS 31, rather than in accordance with this Standard.**

Effective Date

…

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.**

…

Implementation Guidance

…

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 ~~revaluation~~ 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 ~~fair~~ 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 component 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 ~~revaluation~~ 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)
~~Net book value~~ 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 ~~revaluation~~ 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.

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 28, 36 and IE4 are amended. Paragraph 71G is added. New text is underlined, and deleted text is struck through.

…

Reporting at Subsequent Reporting Dates

…

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 ~~fair value or~~ historical cost or current operational value or fair value in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of 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.

Recognition of Exchange Differences

…

36. Other IPSAS require some gains and losses to be recognized directly in net assets/equity. For example, ~~IPSAS 17~~ <u>IPSAS 45</u> 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.

Effective Date

…

71G. <u>**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.**</u>

Illustrative Examples

Foreign Currency Transactions and Advance Consideration

Example 1—A Single Advance Payment for the Purchase of a Single Item of Property, Plant<u>,</u> and Equipment

…

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<u>,</u> and equipment applying ~~IPSAS 17~~<u>IPSAS 45,</u> *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).

…

Amendments to IPSAS 9, *Revenue from Exchange Transactions*

Paragraph 10(c) is amended. Paragraph 41E is added. New text is underlined, and deleted text is struck through.

Scope

…

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

(c) Gains from the sale of property, plant, and equipment (which are dealt with in ~~IPSAS 17~~<u>IPSAS 45</u>, Property, Plant, and Equipment);

Effective Date

…

41E. <u>**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.**</u>

Amendments to IPSAS 12, *Inventories*

Paragraphs 12(d) and 14A are amended. Paragraph 51G is added. New text is underlined, and deleted text is struck through.

…

Inventories

…

12. Inventories in the public sector may include:

…

(a) Spare parts for plant and equipment, other than those dealt with in ~~standards on~~ IPSAS 45, *Property, Plant, and Equipment*;

…

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 17~~IPSAS 45, ~~*Property, Plant, and Equipment*,~~ if they satisfy the criteria to be classified in that standard.

Effective Date

…

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.**

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 86, 89, and 90 are amended. Headings ahead of paragraphs 65, 85, 90 are amended. Paragraph 101J is added. New text is underlined, and deleted text is struck through.

…

Scope

…

6. This Standard does not apply to:

(a) Biological assets related to agricultural activity (see IPSAS 27, *Agriculture* and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*); and

(b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

Classification of Property as Investment Property or Owner-Occupied 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 17~~IPSAS 45~~, *Property, Plant, and Equipment*~~ 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.

…

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) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).

(c) Owner-occupied property (see ~~IPSAS 17~~IPSAS 45 and IPSAS 43), 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 17~~IPSAS 45.

(g) Property held for strategic purposes which would be accounted for in accordance with ~~IPSAS 17~~IPSAS 45.

…

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 17~~IPSAS 45.

Measurement at Recognition

…

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 fair value model (paragraphs 42-64) or the historical cost model (paragraph 65).

…

Measurement after Recognition

Accounting Policy

39. **With the exception noted in paragraph 41A, an entity shall choose as its accounting policy either the fair 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 fair value model to the historical cost model will result in a more relevant presentation.

41. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to determine 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.

….

Inability to Determine Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably determine 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 determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates 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 determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable 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 determinable on a continuing basis, the entity shall measure that investment property using the historical cost model in ~~IPSAS 17~~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 17~~IPSAS 45 or IPSAS 43 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 17~~IPSAS 45 for owned assets or IPSAS 43 for investment property held by a lessee as a right-of-use asset.

…

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 17~~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 fair value model.

Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure investment property:**

(a) **In accordance with IPSAS 43 if it is held by the lessee as a right-of-use asset; and**

(b) **In accordance with the requirements in ~~IPSAS 17~~IPSAS 45 for the historical cost model if it is held by an owner as an owned investment property.**

Transfers

…

70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the fair 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 17~~IPSAS 45, IPSAS 43 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 17~~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 17~~IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with ~~IPSAS 17~~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 17~~IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with ~~IPSAS 17~~IPSAS 45. In other words:

…

Disposals

…

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 fair 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.

Disclosure

Fair Value Model and Historical Cost Model

….

86. **An entity shall disclose:**

(a) **Whether it applies the fair 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) **The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;**

(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.**

…

Fair Value Model

…

89. **In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in ~~IPSAS 17~~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:**

…

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) **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 determine 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 determined reliably; and**

(iii) **If possible, the range of estimates within which fair value is highly likely to lie.**

…

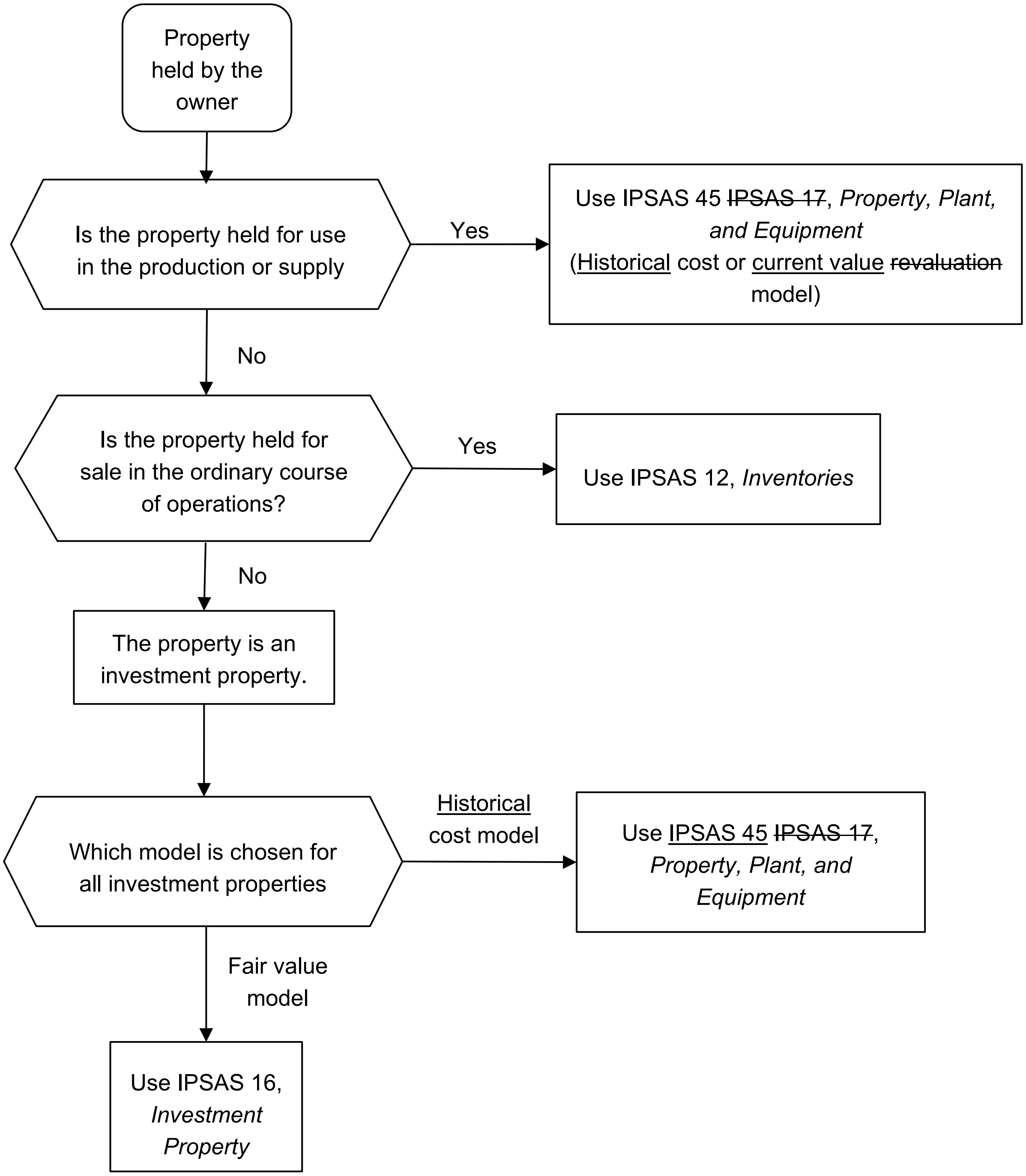
Effective Date

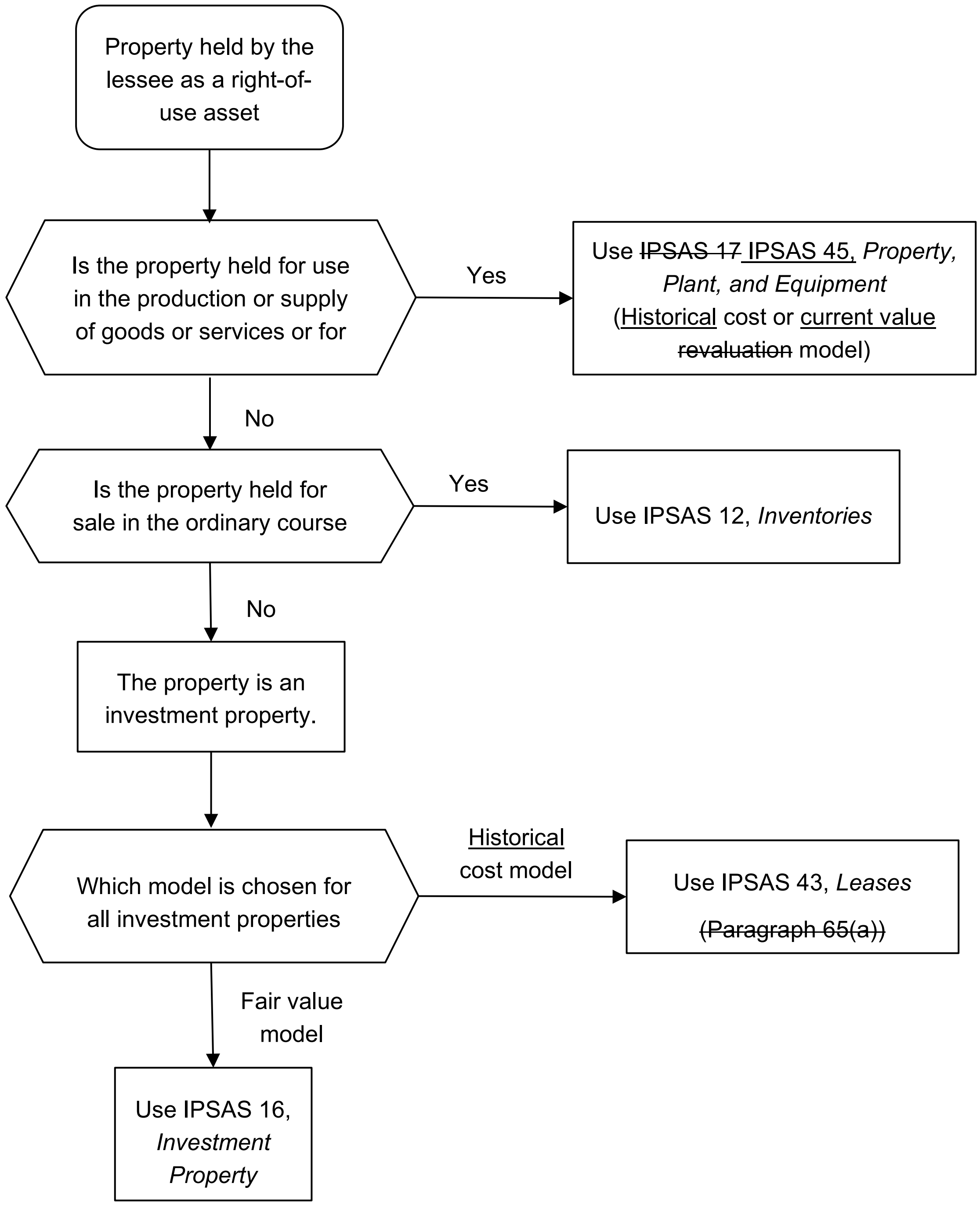
…

101J. **Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 86, 89, and 90 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.**

Illustrative Decision Tree

This decision tree accompanies, but is 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
Yes
Use ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*
(Historical cost or current value ~~revaluation~~ model)
No
Is the property held for sale in the ordinary course
Yes
Use IPSAS 12, *Inventories*
No
The property is an investment property.
Which model is chosen for all investment properties
Historical cost model
Use IPSAS 43, *Leases*
~~(Paragraph 65(a))~~
Fair value model
Use IPSAS 16, *Investment Property*

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 issuing this Standard, the IPSASB has 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 does not reflect amendments made to IAS 40 consequent upon the issue of those IFRS. 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 17~~ IPSAS 45, *Property, Plant, and Equipment*.
- ~~IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 16. IAS 40 only contains transitional provisions for entities that have already used IFRS. IFRS 1 deals with first time adoption of IFRS. IPSAS 16 includes additional transitional provisions that specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits.~~
- 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.”

Amendments to IPSAS 18, *Segment Reporting*

Paragraph 37 is amended. Paragraph 76G is added. New text is underlined, and deleted text is struck through.

…

Segment Assets, Liabilities, Revenue, and Expense

…

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 ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, measurements of segment assets reflect those revaluations.

Effective Date

…

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.**

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 27 and IG16 are amended. Paragraph 111N is added. New text is underlined, and deleted text is struck through.

…

Past Event

…

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 17~~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.

Effective Date

…

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 17~~IPSAS 45 at the same time.**

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 19.

…

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 17~~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.

…

Amendments to IPSAS 21, Impairment of Non-Cash-Generating Assets

Paragraphs 12, 54, 54A, 69, 69A, 75, BC17, BC19, BC20A, BC20B, BC20C, BC20F, BC20H, BC20J, BC25, and BC27 are amended. Paragraph 82L is added. New text is underlined, and deleted text is struck through.

…

Scope

…

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 ~~allowed alternative treatment~~ current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* are dealt with under IPSAS 26.

Recognizing and Measuring an Impairment Loss

…

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 ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 and IPSAS 31). 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 17~~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 17~~IPSAS 45.

Reversing an Impairment Loss

…

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 ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 and IPSAS 31). 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 17~~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 17~~IPSAS 45.

Disclosure

…

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 17~~IPSAS 45.

Effective Date

…

82L. **Paragraphs 12, 54, 54A, 69, 69A, and 75 were amended by IPSAS 45 *Property, Plant, and Equipment,* 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.**

…

Basis for Conclusions

…

Property, Plant, and Equipment and Intangible Assets

BC17. ~~At the time this Standard was approved~~ 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.

…

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 to sell 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 may also be adopted to measure fair value under ~~IPSAS 17~~ IPSAS 45 and IPSAS 31 and therefore the value in use is a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs to sell 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.

…

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. ~~The~~ 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 fair value as required by 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~~s~~ 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.

…

BC20F. Although including property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 means that the 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.

…

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 ~~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.

…

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 ~~are~~ were conceptually the same. However, there ~~is~~ was a practical difference. Impairments were ~~are~~ events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference ~~is~~ 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.

…

Reversal of Impairment

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, ~~T~~the IPSASB had~~s~~ not included repair of an asset as an indication of reversal, because IPSAS 17 required~~s~~ 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~~s~~ to investment property that was~~is~~ measured using the 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 Improvements to IPSAS, 2019

BC27. ~~The~~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.

COMPARISON WITH IAS 36

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.
- IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the ~~allowable alternative treatment~~ current value model in ~~IPSAS 17~~IPSAS 45. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- 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, (d) intangible assets arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4, *Insurance Contracts*, and (e) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.
- 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."

Amendments to IPSAS 23, *Revenue From Non-Exchange Transactions (Taxes and Transfers)*

Paragraphs 13, 42, 43, 83, 97, IG23 and IG58 are amended. Paragraph 43A and 124H are added. New text is underlined, and deleted text is struck through.

Definitions

Revenue

…

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 17~~ IPSAS 45, *Property, Plant, and Equipment*.

Recognition of Assets

Measurement of Assets on Initial Recognition

…

42. An asset acquired through a non-exchange transaction shall initially be measured at its ~~fair~~ current value as at the date of acquisition.

43. Consistent with IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, ~~IPSAS 17 *Property, Plant, and Equipment*~~ 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.

Transfers

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, and 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 17~~ 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.

Gifts and Donations, including Goods In-kind

…

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 assets are measured at their deemed cost at the date of acquisition;

~~As at the date of acquisition, which may be ascertained by reference to an active market, or 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.~~ 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.

…

Effective Date

…

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.**

Implementation Guidance

Transfer to a Public Sector University with Restrictions (paragraphs 19 and 76)

…

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 ~~fair~~ current value in accordance with ~~IPSAS 17~~ 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.

…

Interaction Between Measurement Requirements of IPSAS 23 and IPSAS 41

….

Analysis

…

IG58. IPSAS 23 prescribes that assets acquired as part of a non-exchange revenue transaction are initially measured at ~~fair value~~ 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.

Amendments to IPSAS 26, Impairment of Cash-Generating Assets

Paragraphs 73, 73A, 108, 108A, 118, BC3, BC4, BC5, BC7, BC7A, BC7B, BC7C, BC7F, BC7H, BC7I, BC7J and BC21 are amended. Paragraph 126N is added. New text is underlined, and deleted text is struck through.

…

Recognizing and Measuring 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 ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31). 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 17~~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 17~~IPSAS 45.

…

Reversing an Impairment Loss for an Individual Asset or Class of 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 ~~revaluation~~current value model in IPSAS 45 and IPSAS 31). 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 17~~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 17~~IPSAS 45.

…

Disclosure

…

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 17~~IPSAS 45.

Effective Date

…

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.**

Basis for Conclusions

Development of IPSAS 26 Based on the IASB's Revised Version of IAS 36 Issued in 2004

…

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 ~~are~~ 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 ~~are~~ 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. ~~At the time this Standard was approved~~ 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 ~~are~~ 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 ~~is~~ was the disposal costs. In the Basis for Conclusions for IPSAS 21, it ~~is~~ 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.

…

BC7. ~~The~~ When this Standard was issued, the IPSASB had been ~~was~~ 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 ~~will~~ would be revalued with sufficient regularity to ensure that they ~~are~~ were carried at an amount that ~~is~~ 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 ~~are~~ were regularly revalued to fair value ~~were~~ would also be excluded from the scope. In developing IPSAS 45, *Property, Plant, and Equipment,* 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 property, plant, and equipment and intangible assets from the scope of IPSAS 26.

BC7B. ~~The~~ 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 ~~is~~ 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 ~~are~~ were accounted for in a similar manner. Paragraph 51 of IPSAS 17 required~~s~~ the entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class ~~is~~ was revalued. Therefore, if impairment losses and reversals of impairment losses ~~are~~ were interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that this reasoning and consideration are still applicable.

…

BC7F. Although 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.

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 ~~is~~ 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 ~~is~~ 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, *Property, Plant, and Equipment,* the IPSASB noted that this guidance is still applicable.

…

Revision of IPSAS 26 as a result of Improvements to IPSAS, 2019

BC21. ~~The~~ 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, *Property, Plant, and Equipment,* the IPSASB noted that this guidance is still applicable.

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 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the ~~revaluation~~ current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.
- 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 to sell. 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 re designation 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."

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3, 4, 6, 37, and BC9 are amended. Paragraph 56I is added. New text is underlined, and deleted text is struck through.

…

Scope

…

3. This Standard does not apply to:

   (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*);

…

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 17~~IPSAS 45).

…

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
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit

<table>
<tr><th>Biological assets</th><th>Agricultural produce</th><th>Products that are the result of processing after harvest</th></tr>
<tr><td>Oil Palms</td><td>Picked fruit</td><td>Palm Oil</td></tr>
<tr><td>Rubber trees</td><td>Harvested latex</td><td>Rubber products</td></tr>
<tr><td colspan="3">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 17~~ 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.</td></tr>
</table>

…

Inability to Measure Fair Value Reliably

…

37. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IPSAS 12, ~~IPSAS 17~~IPSAS 45, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.

Effective Date

…

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.**

…

Basis for Conclusions

…

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

…

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. IPSAS 23.13 states 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 ~~are~~ 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 implies that for other assets, an entity considers the measurement requirements of other IPSAS as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 3, 7, 15, 67, AG5, BC9, and IE22 are amended. Paragraphs 3(k) and 11 are deleted. Paragraphs 132M, AG12, AG13, AG14 and BC14-BC15 are added. New text is underlined, and deleted text is struck through.

…

Scope

…

3 **This Standard shall be applied in accounting for intangible assets, except:**

(a) **Intangible assets that are within the scope of another Standard;**

(b) **Financial assets, as defined in IPSAS 28*, Financial Instruments: Presentation;***

(c) **The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources);**

(d) **Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;**

(e) [Deleted]

(f) [Deleted]

(g) **Powers and rights conferred by legislation, a constitution, or by equivalent means;**

(h) **Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);**

(i) **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. In cases where the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets; and**

(j) [Deleted]

(k) [Deleted] ~~**In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 115–127 apply to those heritage assets that are recognized.**~~

…

7. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, or as an intangible asset under this Standard, an entity uses judgment to assess which element is more significant. For example, the navigation software for a fighter aircraft is integral to the aircraft and is treated as property, plant, and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

…

Intangible Heritage Assets

…

11. [Deleted] ~~This Standard does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize intangible 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.~~

…

15. The disclosure requirements in paragraphs 117–124 require entities to make disclosures about recognized intangible assets. Therefore, entities ~~that recognize intangible heritage assets~~ are required to disclose in respect of ~~those~~ recognized intangible heritage assets such matters as, for example:

    (a) The measurement basis used;

    (b) The amortization method used, if any;

    (c) The gross carrying amount;

    (d) The accumulated amortization 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.

…

Recognition of an Expense

…

67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 52), except when it is acquired as part of an acquisition. Other examples of expenditure that is recognized as an expense when it is incurred include:

    (a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with ~~IPSAS 17~~IPSAS 45. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);

    (b) Expenditure on training activities;

    (c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and

    (d) Expenditure on relocating or reorganizing part or all of an entity.

…

Effective Date

…

132M. **Paragraphs 3, 7, 15, 67, and AG5 were amended, paragraphs 3(k) and 11 were deleted, and paragraphs AG12, AG13, and AG14 were added by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at 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.**

…

Application Guidance

This Appendix is an integral part of IPSAS 31.

Website Costs

…

AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers, and Internet connections) of a website. Such expenditure is accounted for under ~~IPSAS 17~~IPSAS 45 *Property, Plant, and Equipment*. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's website, the expenditure is recognized as an expense when the services are received.

…

Intangible Heritage Assets: Cost or Fair Value Cannot be Measured Reliably

AG12. Where intangible heritage assets are not recognized in the financial statements because, at initial measurement, their cost or fair value cannot be measured reliably, the entity shall disclose:

(a) The difficulties in obtaining a reliable measurement that prevented recognition; and

(b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.

AG13. The disclosures should ensure that, when read in the context of information about recognized intangible assets, the financial statements provide useful and relevant information about the entity's overall holding of intangible assets, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG14. These disclosures may be presented in aggregate for groups or classes of intangible assets, provided this aggregation does not obscure significant information.

…

Basis for Conclusions

…

Revaluation Model

BC9. The revaluation model proposed in IPSAS 31 is similar to that in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. When this Standard was issued, IPSAS 17, *Property, Plant, and Equipment* required~~s~~ revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB had considered this approach for intangible assets, but had concluded that it was not necessary because intangible assets differ from property, plant, and equipment in that they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB had concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that this conclusion is 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.

…

Revision of IPSAS 31 as a result of ED 78, *Property, Plant, and Equipment*

BC14. During development of IPSAS 45, *Property, Plant, and Equipment*, the IPSASB concluded that the heritage nature of an asset does not prevent its recognition. On the basis that the same conceptual arguments apply to intangible heritage as those that apply to heritage property, plant, and equipment the IPSASB decided to remove the heritage scope exclusion in IPSAS 31. This ensures that IPSAS 31's treatment of intangible heritage assets is consistent with the accounting treatment for heritage property, plant, and equipment. Recognition of intangible heritage assets that meet IPSAS 31's recognition criteria will provide information that users of the financial statements find useful for accountability and decision-making.

BC15. The IPSASB considered whether the disclosure requirements in ED 78 for unrecognized heritage property, plant, and equipment should also apply to unrecognized intangible heritage assets. On the basis that disclosure requirements in ED 78 will provide useful information for accountability and decision-making on intangible heritage assets that are not recognized because their cost or fair value cannot be measured reliably, the IPSASB concluded that the same disclosure requirements should apply to intangible heritage assets. The IPSASB decided, therefore, to add application guidance that sets out disclosure requirements with respect to unrecognized intangible heritage assets.

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 31.

…

Examples Illustrating the Application Guidance

IE22. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2-AG3 and to illustrate application of paragraphs AG4-AG11 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

STAGE/NATURE OF EXPENDITURE	**ACCOUNTING TREATMENT**
Planning	
…	…
Application and Infrastructure Development	
…	Apply the requirements of ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment.* ….
Graphical Design Development	
…	…

…

COMPARISON WITH IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

- IPSAS 31 includes a scope exclusion for the powers and rights conferred by legislation, a constitution, or by equivalent means.
- IPSAS 31 incorporates the guidance contained in the Standing Interpretation Committee's Interpretation 32, *Intangible Assets—Web Site Costs* as Application Guidance to illustrate the relevant accounting principles.
- IPSAS 31 ~~does not require or prohibit the recognition of~~ <u>includes paragraphs that describe</u> intangible heritage assets<u>, and states that</u> ~~An~~ <u>an</u> entity ~~that recognizes intangible heritage assets~~ is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognized ~~and may, but is not required to, comply with other requirements of this Standard in respect of those intangible heritage assets.~~ <u>It has application guidance that requires disclosure on intangible heritage assets that have not been recognized.</u> IAS 38 does not have similar guidance.
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through non-exchange transactions. IPSAS 31 states that where an intangible asset is acquired through a non-exchange transaction, the cost is its fair value as at the date it is acquired.
- IAS 38 provides guidance on exchanges of assets when an exchange transaction lacks commercial substance. IPSAS 31 does not include this guidance.
- The examples included in IAS 38 have been modified to better address public sector circumstances.
- IPSAS 31 uses different terminology, in certain instances, from IAS 38. The most significant examples are the use of the terms "revenue," "statement of financial performance," "surplus or deficit," "future economic benefits or service potential," "accumulated surpluses or deficits," "operating/operation," "rights from binding arrangements (including rights from contracts or other legal rights)," and "net assets/equity" in IPSAS 31. The equivalent terms in IAS 38 are "income," "statement of comprehensive income," "profit or loss," "future economic benefits," "retained earnings," "business," "contractual or other legal rights," and "equity."

Amendments to IPSAS 32, Service Concession Arrangements: Grantor

Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35, AG48, BC49, BC50, IG2, IG4, IE6, IE8, IE15, IE17, IE22, IE30, and IE39 are amended. Paragraph 36F is added. New text is underlined, and deleted text is struck through.

…

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5-AG35)

…

12. **Where an existing asset of the grantor meets the conditions specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted for in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*, as appropriate.**

13. **After initial recognition or reclassification, service concession assets shall be accounted for in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate.**

…

Presentation and Disclosure (see paragraphs AG65-AG67)

…

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services). This disclosure is in addition to the disclosures required in ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31 or may be included in more than one class of assets disclosed in accordance with ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31. For example, for the purposes of ~~IPSAS 17~~IPSAS 45 a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

…

Effective Date

…

36F. **Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35, and AG48 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.**

…

Application Guidance

This Appendix is an integral part of IPSAS 32.

…

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9-13)

Recognition of a Service Concession Asset

…

AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer or surface of a road or the roof of a building), the asset is considered as a whole. Thus, the condition in paragraph 9(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

…

Existing Asset of the Grantor

…

AG16. In applying the impairment tests in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 43.

…

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor recognizes and measures the asset in accordance with this Standard. ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, set out the criteria for when a service concession asset should be recognized. Both ~~IPSAS 17~~IPSAS 45 and IPSAS 31 require that an asset shall be recognized 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.

…

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, the grantor must have reliable information about the historical cost or current operational value or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in ~~IPSAS 17~~IPSAS 45 for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a service concession asset and an associated liability.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph 11 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph 12 of this Standard. The use of ~~fair value~~ current value measurement basis on initial recognition does not constitute a revaluation under ~~IPSAS 17~~IPSAS 45 or IPSAS 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(a) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.

(b) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in ~~IPSAS 17~~IPSAS 45 and IPSAS 31.

…

Separable Payments

…

AG30. ~~IPSAS 17~~IPSAS 45 and IPSAS 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

…

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph ~~38~~ 21 of ~~IPSAS 17~~IPSAS 45 and paragraph 44 of IPSAS 31, as appropriate, provide guidance on these circumstances.

…

Subsequent Measurement

AG35. After initial recognition, a grantor applies ~~IPSAS 17~~IPSAS 45 and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. IPSAS 21 and IPSAS 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognized or classified as service concession assets in accordance with this Standard.

…

Recognition and Measurement of Liabilities (see paragraphs 14-28)

…

Grant of a Right to the Operator Model (see paragraphs 24-26)

…

AG48. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognized and the liability recognized in accordance with paragraph 24 is reduced in a manner similar to that described in paragraph AG47. In such cases, the grantor also considers the derecognition requirements in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate.

…

Basis for Conclusions

…

Revision of IPSAS 32 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC49. ~~The~~ When this Standard was issued the IPSASB had its attention drawn to a possible inconsistency between the requirements in IPSAS 32 and the requirements in IPSAS 17 and IPSAS 31. The requirements in IPSAS 32 could have been seen as requiring service concession assets to be presented as a single class of assets, even if they were of a dissimilar nature and function. As it ~~is~~ was not the intention of the IPSASB to require that dissimilar assets be reported as if they were similar, the IPSASB had decided to propose clarifications to IPSAS 32 to make its intentions clear. The IPSASB had considered whether these changes would reduce the information available to users, but ~~is~~ was satisfied that the then current disclosure requirements, in particular those in paragraph 32, would ensure high quality disclosures about assets subject to service concession arrangements. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable.

BC50. The IPSASB had noted that the reclassification of service concessions assets could require a change in measurement basis for some entities. For example, some service concession assets measured using the revaluation model, might have been reclassified into a class of assets measured using the cost model. Equally, some service concession assets that were measured using the cost model, might have been reclassified into a class of assets measured using the revaluation model. Because the balance between the service concession assets and the other assets in a class will vary from entity to entity, the IPSASB had agreed to permit entities to select the measurement basis to be applied at the point of reclassification. The IPSASB had also noted that the information required to retrospectively apply the cost model might not have been readily available. Consequently, the IPSASB had agreed to permit entities to use the carrying amounts determined under the revaluation model as deemed cost at the point of reclassification where an entity elect~~s~~ed to measure a class of assets using the cost model. 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, while the cost model in IPSAS 17 is labeled the historical cost model.

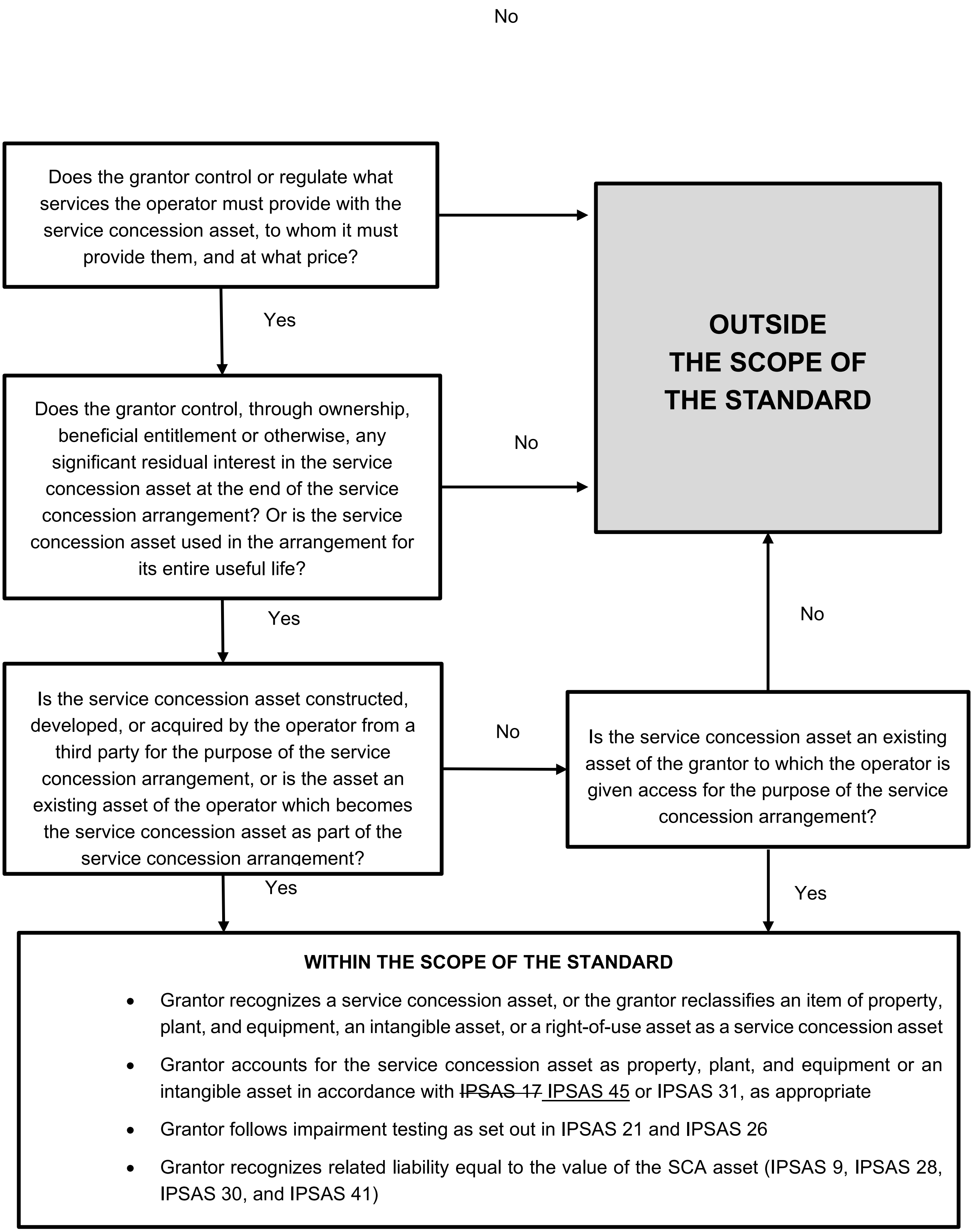
…

Implementation Guidance

…

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.


No
Does the grantor control or regulate what services the operator must provide with the service concession asset, to whom it must provide them, and at what price?
Yes
OUTSIDE THE SCOPE OF THE STANDARD
Does the grantor control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the service concession asset at the end of the service concession arrangement? Or is the service concession asset used in the arrangement for its entire useful life?
No
Yes
No
Is the service concession asset constructed, developed, or acquired by the operator from a third party for the purpose of the service concession arrangement, or is the asset an existing asset of the operator which becomes the service concession asset as part of the service concession arrangement?
No
Is the service concession asset an existing asset of the grantor to which the operator is given access for the purpose of the service concession arrangement?
Yes
Yes
WITHIN THE SCOPE OF THE STANDARD
Grantor recognizes a service concession asset, or the grantor reclassifies an item of property, plant, and equipment, an intangible asset, or a right-of-use asset as a service concession asset
Grantor accounts for the service concession asset as property, plant, and equipment or an intangible asset in accordance with ~~IPSAS 17~~ IPSAS 45 or IPSAS 31, as appropriate
Grantor follows impairment testing as set out in IPSAS 21 and IPSAS 26
Grantor recognizes related liability equal to the value of the SCA asset (IPSAS 9, IPSAS 28, IPSAS 30, and IPSAS 41)

References to IPSAS that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

…

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by binding arrangement or license)
Residual interest	Grantor				Operator	
Relevant IPSAS	IPSAS 43	IPSAS 1	This IPSAS/~~IPSAS 17~~IPSAS 45/IPSAS 31		~~IPSAS 17~~IPSAS 45/IPSAS 31 (derecognition) …	

Illustrative Examples

…

Arrangement Terms (Common to All Three Examples)

…

IE6. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs. It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base (substructure) and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

…

IE8. At the beginning of year 3, the total fair value of the road is CU1,050, comprised of CU940 related to the construction of the base layers and CU110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with ~~IPSAS 17~~IPSAS 45. The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

…

IE15. The grantor's accounting policy for property, plant, and equipment is to recognize such assets using the historical cost model specified in ~~IPSAS 17~~IPSAS 45.

Exhibit 1: Fair Values of the Components of the Arrangement (Currency Units)

Arrangement Component	Fair Value
Road – base layers <u>(substructure)</u>	940
Road – original surface layers	110
Total fair value of road	1,050
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

…

Financial Statement Impact

IE17. The grantor initially <u>measures</u> the service concession asset as property, plant, and equipment at its fair value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers), starting from year 3.

…

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE22. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

…

Table 1.2 Statement of Financial Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	–	–	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	–	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)
Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)

Annual surplus/ (deficit)	–	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
2. Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph ~~76~~57 of ~~IPSAS 17~~IPSAS 45 requires that, “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.” Likewise, for intangible assets, paragraph 96 of IPSAS 31 requires that, “The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.”

Table 1.3 Statement of Financial Position (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	–
Cumulative surplus/deficit	–	32	167	295	414	525	628	721	811	891

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 1.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

…

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

…

…

Cash Flows

IE30. Because there are no payments made to the operator, there are no cash flow impacts for this example.

…

Table 2.2 Statement of Financial Position (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	–	–	–	–	–	–	–	–
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	–
Cumulative surplus/deficit	–	–	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 2.2).

The liability is increased in year 8 for the recognition of the new component of the service concession asset.

…

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

…

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

…

IE39 The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be illustrated in Tables 3.1 to 3.3. In addition, Table 3.4 shows the changes in the liability and Table 3.5 shows the changes in the financial liability.

Table 3.3 Statement of Financial Position (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset –	–	110	92	73	55	37	18	–	–	–

surface layer										
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Liability	(262)	(525)	(452)	(380)	(307)	(235)	(162)	(145)	(72)	–
Financial liability	(263)	(541)	(480)	(416)	(348)	(276)	(199)	(172)	(89)	–
Cumulative surplus/deficit	–	16	38	59	74	86	93	95	95	91

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 3.2).

The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

Amendments to IPSAS 33, First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)

Paragraphs 36, 48, 49, 64, 66, 67, 68, 69, 129, BC43, BC57, BC58, BC80, BC82, BC92, BC93, IG14, IG22, IG23, IG53, IG54, IG55, IG56, IG57, IG58 and IG91 are amended. Heading ahead of paragraph IG53 is amended. Paragraph 154L is added. New text is underlined, and deleted text is struck through.

…

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

…

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

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

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

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

    (c) **Property, plant, and equipment (see ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*);**

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

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

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

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

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

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

(i) **Social benefits (see IPSAS 42, *Social Benefits*).**

…

Other Exemptions

…

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

48. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure property, plant, and equipment, it is not required to recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for ~~IPSAS 17~~IPSAS 45 has expired, and/or the relevant asset is recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).**

49. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to not recognize and/or measure property, plant, and equipment. ~~IPSAS 17~~IPSAS 45 requires an entity to include as part of the cost of an item of property, plant, and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Where a first-time adopter takes advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of property, plant, and equipment, a first-time adopter is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption that provided the relief has expired, and/or when the relevant asset is recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier). The liability shall be measured as at the date of adoption of IPSAS, or where a first-time adopter has taken advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of an asset, the date on which the exemption that provides the relief has expired and/or the asset has been recognized and/or measured in accordance with the applicable IPSAS.

…

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS During the Period of Adoption

…

Using Deemed Cost to Measure Assets and/or Liabilities

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

(a) **Inventory (see IPSAS 12);**

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

(ba) **Right-of-use assets (see IPSAS 43);**

(c) **Property, plant, and equipment (see ~~IPSAS 17~~IPSAS 45);**

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

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

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

(e) **Financial Instruments (see IPSAS 41); or**

(f) **Service concession assets (see IPSAS 32).**

…

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

67. **A first-time adopter may elect to use the ~~revaluation~~ current value of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:**

(a) **Current operational value or ~~F~~fair value; or**

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

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

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

(b) If the measurement date is after the date of adoption of IPSAS, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven current operational value or fair value measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.

69. In determining the current operational value or fair value in accordance with paragraph 67, the first-time adopter shall apply the definition of current operational value or fair value and guidance in other applicable IPSAS in determining the current operational value or fair value of the asset in question. The current operational value or fair value shall reflect conditions that existed at the date on which it was determined.

…

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

129. **If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:**

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

(b) **The carrying amounts required by the rest of this IPSAS, based on the controlled entity's date of adoption of IPSAS. These carrying amounts could differ from those described in (a):**

(i) **When the exemptions in this IPSAS result in measurements that depend on the date of adoption of IPSAS.**

(ii) **When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the historical cost model in ~~IPSAS 17~~IPSAS 45, whereas the economic entity may use the ~~revaluation~~current value model.**

…

Effective Date

…

154L. **Paragraphs 36, 48, 49, 64, 66, 67, 68, 69, and 129 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at 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.**

…

Basis for Conclusions

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

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

…

BC43. In considering the relief that should be provided to a first-time adopter for the recognition of its assets when this Standard was issued, the IPSASB had considered the then existing five year relief period in IPSAS 17. To encourage entities to prepare for the adoption of IPSAS in advance of the preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB had agreed that a grace period not exceeding three years should be allowed. As entities should have prepared well in advance for their transition to accrual basis IPSAS and not solely rely on the relief period provided in this IPSAS, the IPSASB was ~~is~~ of the view that the three year transitional period ~~is~~ was more manageable, and would reduce~~s~~

the period over which entities would ~~will~~ not be able to assert compliance with IPSAS. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable.

…

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSAS

…

BC57. When this Standard was issued, IPSAS 17 required~~s~~ an entity to include, as part of the cost of an item of property, plant, and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 17 required~~s~~ that the obligation for costs accounted for in accordance with IPSAS 17 was~~is~~ recognized and measured in accordance with IPSAS 19.

BC58. The IPSASB had agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is located until such time as the relevant item of property, plant, and equipment ~~is~~ was recognized and/or measured in accordance with IPSAS 17. A transitional relief period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable.

…

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

Deemed Cost

Deemed Cost for Assets and/or Liabilities

BC80. Some measurements in accordance with IPSAS are based on an accumulation of past costs or other transaction data. If a first-time adopter has not previously collected the necessary information, collecting or estimating it retrospectively may be costly and/or impractical. To avoid excessive cost, this IPSAS allows a first-time adopter to use the fair value as a substitute for the initial cost of inventory, investment property where the first-time adopter elects to use the historical cost model in IPSAS 16, property, plant and equipment, financial instruments and service concession assets at the date of adoption of IPSAS. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the fair value is the deemed cost at the date at which the asset is recognized and/or measured during the period of transition.

…

BC82. ~~Under~~ When this Standard was issued, under the revaluation model in IPSAS 17, if an entity revalued~~s~~ an asset, it ~~must~~ had to revalue all assets in that class. This restriction prevented~~s~~ selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB had considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21, *Impairment of Non-cash-generating Assets* and IPSAS 26, *Impairment of Cash-generating Assets* required~~s~~ an impairment test if there ~~is~~ was any indication that an asset ~~is~~ was impaired. Thus, if a first-time adopter used~~s~~ fair value as deemed cost for assets whose fair value ~~is~~ was likely to be above cost, it could not ~~cannot~~ ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable when current operational value or fair value is used as deemed cost. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

…

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC92. ~~The~~ When this Standard was issued, the IPSASB had considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require a time-consuming and expensive estimation of cost, if previous revaluations already complied~~y~~ with IPSAS. This IPSAS therefore allowed~~s~~ a first-time adopter to use a revaluation under its previous basis of accounting for property, plant, and equipment determined at or before the date of adoption of IPSAS, as deemed cost. This was allowed to ~~may~~ be used if the revaluation ~~is~~ was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

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

BC93. In determining "fair value", the guidance in each applicable IPSAS ~~is~~ was considered, where such guidance ~~is~~ was provided. In IPSAS 17 it ~~is~~ was noted that fair value ~~is~~ was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also stated~~s~~ that if market-based evidence ~~is~~ was not available to measure items of property, plant, and equipment, an entity could ~~can~~ estimate fair value using replacement cost, reproduction cost or a service units approach. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles have been moved to IPSAS 46, *Measurement*. In reaching this conclusion, the IPSASB noted that IPSAS 45 refers to historical cost rather than cost and uses current operational value rather than fair value.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

IG14. If a first-time adopter has not adopted any of the exemptions in IPSAS 33 that affect fair presentation and its ability to claim compliance with accrual basis IPSAS, its first accrual financial statements will also be its first IPSAS financial statements.

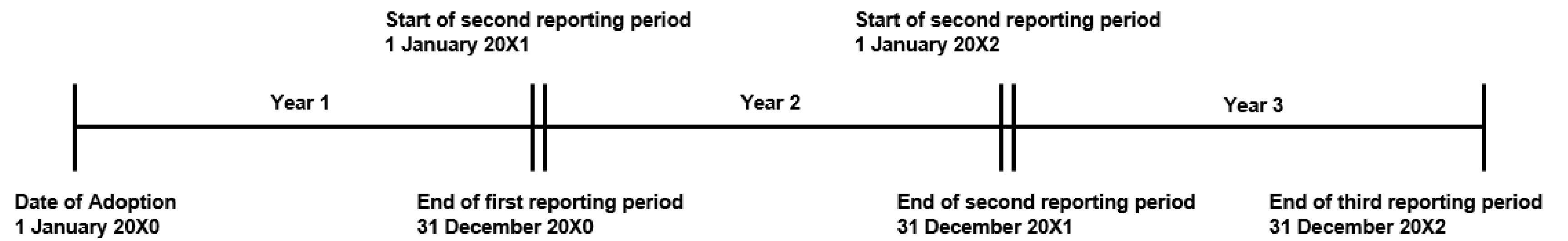
To illustrate:

Timeline – First Time Adoption IPSAS (assuming that entity elects to apply the three year transitional relief for the recognition and/or measurement of certain assets)

An entity adopts accrual basis IPSAS on 1 January 20X0 by applying IPSAS 33, *First Time Adoption of Accrual Basis IPSAS*

The first-time adopter elects to apply the three-year relief for the recognition of property, plant, and equipment. Assume that it does not adopt any other relief periods. It also elects not to present comparative information.

The first-time adopter recognizes all property, plant, and equipment by 31 December 20X0.



<u>Year 1 (ending 31 December 20X0) – First Transitional IPSAS Financial Statements</u>
Cannot assert compliance with accrual basis IPSASs

Present the following statements:
*opening statement of financial position as at 01/01/20X0 *statement of financial position as at 31/12/20X0
*statement of financial performance for 31/12/20X0
*statement of changes in net assets as at 31/12/20X0
*cash flow statement for 31/12/20X0
*statement of comparison of budget and actual information for 31/12/20X0
(depending on the policy chosen for presentation of information the first-time adopter may include an additional column in the annual financial statements)

Present the following in the notes:
*reconciliation of changes from its previous basis of accounting (reflect adjustments related to the adoption of all IPSASs besides ~~IPSAS 17~~ IPSAS [X])

Note: If the first-time adopter elected to present comparative information, the following statements shall have been presented:
*opening statement of financial position as at 01/01/19X0
*statement of financial position as at 31/12/19X0 and 31/12/20X0
*statement of financial performance for 31/12/10X0 and 31/12/20X0
*statement of changes in net assets as at 31/12/19X0 and 31/12/20X0
*cash flow statement for 31/12/19X0 and 31/12/20X0
*statement of comparison of budget and actual information for 31/12/19X0 and 31/12/20X0

<u>Year 2 (ending 31 December 20X1) – Transitional IPSAS Financial Statements</u>
Cannot assert compliance with IPSASs

Present the following statements for both 31/12/20X1 and 20X0:
*statement of financial position
*statement of financial performance
*statement of changes in net assets
*cash flow statement

Present the statement of comparison of budget and actual information for 31/12/20X1 only (depending on policy chosen for presentation of information the first-time adopter may include an additional column in the annual financial statements)

<u>Year 3 (ending 31 December 20X3) – First IPSAS Financial Statements</u>
Can assert compliance with IPSASs

Present the following statements for both 31/12/20X2 and 20X1:
*statement of financial position
*statement of financial performance
*statement of changes in net assets *cash flow statement

Present the statement of comparison of budget and actual information for 31/12/20X2 only (depending on policy chosen for presentation of information, the first-time adopter may include an additional column in the annual financial statements)

Present the following in the notes:
*reconciliation of adjustments made to recognize property, plant and equipment

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

…

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

IG22. ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* recognizes that in some cases, the construction or commissioning of an item of property, plant, and equipment will result in an obligation for an entity to dismantle or remove the item of property, plant, and equipment and restore the site on which the asset is located. An entity is required to apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* in recognizing and measuring the resulting provision to be included in the initial cost of the item of property, plant, and equipment.

IG23. IPSAS 33 provides an exemption for the recognition of this liability. A first-time adopter is allowed to not recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, until such time as the exemption for ~~IPSAS 17~~IPSAS 45 expires and/or the relevant asset is recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

…

~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*

IG53. If a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSAS, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraph 22 and 26 of IPSAS 33 and paragraph ~~76~~57 of ~~IPSAS 17~~IPSAS 45). However, in some cases, a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSAS (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening statement of financial position retrospectively so that it complies with IPSAS.

IG54. A first-time adopter may elect to use one of the following amounts as the deemed cost of property, plant, and equipment:

(a) Current operational value or ~~F~~fair value at the date of adoption of IPSAS (paragraph 67 of IPSAS 33), in which case the first-time adopter provides the disclosures -required by paragraph 148 of IPSAS 33; or

(b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS 33.

IG55. Subsequent depreciation is based on that deemed cost and starts from the date for which the first-time adopter determined the deemed cost, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

IG56. If a first-time adopter chooses as its accounting policy the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 for some or all classes of property, plant, and equipment, it presents the cumulative revaluation surplus as a separate component of net assets/equity. The revaluation surplus at the date of adoption of IPSAS is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the current operational value or fair value at the date of adoption of IPSAS or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier), the first-time adopter provides the disclosures required by paragraph 148 of IPSAS 33.

IG57. If revaluations in accordance with the first-time adopter's previous basis of accounting did not satisfy the criteria in paragraphs 67 or 69 of IPSAS 33, the first-time adopter measures the revalued assets in its opening statement of financial position on one of the following bases:

(a) Historical ~~C~~cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the historical cost model in ~~IPSAS 17~~IPSAS 45;

(b) Deemed cost, being the current operational value or fair value or an alternative when market-based evidence of current operational value or fair value is not available, at the date of adoption of IPSAS, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition, or when the transitional exemptions expire (whichever is earlier); or

(c) A revalued amount, if the entity adopts the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 as its accounting policy in accordance with IPSAS for all items of property, plant, and equipment in the same class.

IG58. ~~IPSAS 17~~IPSAS 45 requires 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 to be depreciated separately. However, ~~IPSAS 17~~IPSAS 45 does not prescribe the unit of measurement for recognition of an asset, 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 (see paragraphs ~~18~~8 and ~~59~~41).

…

Summary of Transitional Exemptions and Provisions Included in IPSAS 33 *First-time Adoption of Accrual Basis IPSAS*

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSAS

…

IPSAS	**Transitional exemption provided**							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
…	…	…	…	…	…	…	…	…

~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*		√	√ Property, plant, and equipment not recognized under previous basis of accounting	√ Property, plant, and equipment recognized under previous basis of accounting				

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS

…

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and -compliance with accrual basis IPSAS	Do not affect fair -presentation and -compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
…	…	…	…
~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
…	…	…	…

…

Amendments to IPSAS 36, Investments in Associates and Joint Ventures

Paragraph 33 is amended. Paragraph 51K is added. New text is underlined, and deleted text is struck through.

…

Application of the Equity Method

…

Equity Method Procedures

…

33. The gain or loss resulting from the contribution of non-monetary assets that do not constitute an operation, as defined in IPSAS 40, to an associate or a joint venture in exchange for an equity interest in that associate

or joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment.* If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 34 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

…

Effective Date

…

51K. **Paragraph 33 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.**

…

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 11, 53, and 123 are amended. Paragraph 176C is added. New text is underlined, and deleted text is struck through.

…

Short-Term Employee Benefits

…

Recognition and Measurement

All Short-Term Employee Benefits

11. **When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:**

    (a) **As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.**

    (b) **As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IPSAS 12, *Inventories*, and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*).**

…

Post-Employment Benefits—Defined Contribution Plans

…

Recognition and Measurement

53. **When an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable to a defined contribution plan in exchange for that service:**

(a) **As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**

(b) **As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IPSAS 12 and ~~IPSAS 17~~IPSAS 45).**

…

Components of Defined Benefit Cost

…

123. Other IPSAS require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant, and equipment (see IPSAS 12 and ~~IPSAS 17~~IPSAS 45). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

…

Effective Date

…

176C. **Paragraphs 11, 53 and 123 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at 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.**

Amendments to IPSAS 40, Public Sector Combinations

Paragraphs BC82, IE167, IE168, IE169, IE170, IE171, IE180, IE185, and IE192 are amended. New text is underlined, and deleted text is struck through.

…

Basis for Conclusions

…

Accounting for Amalgamations (paragraphs 15-57)

…

Measurement Period

…

BC82. ~~The~~ When this Standard was issued, the IPSASB had considered whether such a period was required when accounting for an amalgamation. The modified pooling of interests method does not require assets and liabilities to be restated to fair value at the amalgamation date. However, the IPSASB noted that the combining operations may have different accounting policies, which could result in some assets and liabilities being required to be restated to conform to the resulting entity's accounting policies. For example, the resulting entity may adopt an accounting policy of revaluing certain assets such as property, plant, and equipment. If one or more combining operations had previously adopted an accounting policy of measuring such assets at cost, the practical effect of determining the carrying amount of those assets under the revaluation model would be similar to that of determining their fair value. For this reason, the IPSASB agreed that it was appropriate to permit a resulting entity time to obtain the information needed to restate assets and liabilities to conform to its accounting policies. The IPSASB agreed that a period of one year was appropriate. 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 and IPSAS 17 referred to cost and fair value, while IPSAS 45, *Property, Plant, and Equipment,* refers to historical cost, current operational value and fair value.

…

Illustrative Examples

…

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26-27 and 36 of IPSAS 40

…

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45.

IE168. RE adopts an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~current value model. RE seeks an independent valuation for the items of property, plant, and equipment previously controlled by COA.

IE169. On receiving the independent valuation for the items of property, plant, and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property, plant, and equipment as follows, with the corresponding entry being made to components of net assets/equity:

…

IE170. RE also reviews the carrying amounts of the items of property, plant, and equipment previously controlled by COB to ensure the amounts are up to dates at 1 October 20X5. The review confirms the carrying amounts of the items of property, plant, and equipment previously controlled by COB are up to date and that no adjustment is required.

IE171. RE recognizes the items of property, plant, and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph ~~67~~48 of ~~IPSAS 17~~IPSAS 45, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

…

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37-39 of IPSAS 40

…

IE180. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~ current value model. RE has adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~ current value model. RE obtains an independent valuation for the items of property, plant, and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant, and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

…

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40-44 of IPSAS 40.

…

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the ~~revaluation~~ current value model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the ~~revaluation~~ current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

…

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53-57 of IPSAS 40.

…

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of IPSAS 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

…

Paragraph reference				

		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
54(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant, and equipment recorded by COA to measure the items using the ~~revaluation~~ current value model	12,116	17,954	30,070

…

Amendments to IPSAS 41, Financial Instruments

ParagraphBC11 is amended and BC11A is added. New text is underlined.

….

Basis for Conclusions

…

Initial Measurement

…

BC11. 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 financial 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.

BC11A. During the development of IPSAS 45, *Property, Plant, and Equipment* and IPSAS 46, *Measurement*, the requirement in IPSAS 23 for initial measurement of financial assets received through a non-exchange transaction was clarified to reflect that these are measured at fair value.

Amendments to IPSAS 43, *Leases*

Paragraphs 5, 31, 32, 36, 60, 84, 94, and AG45 are amended. Paragraph 103B is added. Heading ahead of paragraph 31 is amended. New text is underlined, and deleted text is struck through.

…

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

….

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 defined term useful

life is used in this Standard with the meaning as in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*.

….

Lessee

….

Subsequent measurement

….

Historical Cost Model

31. To apply ~~a~~ historical cost model, a lessee shall measure the right-of-use asset at cost:

  (a) Less any accumulated depreciation and any accumulated impairment losses; and

  (b) Adjusted for any remeasurement of the lease liability specified in paragraph 37(c).

32. A lessee shall apply the depreciation requirements in ~~IPSAS 17~~IPSAS 45 in depreciating the right-of-use asset, subject to the requirements in paragraph 33.

….

Other Measurement Models

….

36. If right-of-use assets relate to a class of property, plant, and equipment to which the lessee applies the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, a lessee may elect to apply that ~~revaluation~~ current value model to all of the right-of-use assets that relate to that class of property, plant, and equipment.

….

Disclosure

….

60. If a lessee measures right-of-use assets at revalued amounts applying ~~IPSAS 17~~IPSAS 45, the lessee shall disclose the information required by paragraph ~~92~~74 of ~~IPSAS 17~~IPSAS 45 for those right-of-use assets.

….

Lessor

Operating leases

Recognition and Measurement

….

84. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with ~~IPSAS 17~~IPSAS 45 and IPSAS 31.

….

Disclosure

Operating leases

94. For items of property, plant, and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of ~~IPSAS 17~~IPSAS 45. In applying the disclosure requirements in ~~IPSAS 17~~IPSAS 45, a lessor shall disaggregate each class of property, plant, and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by ~~IPSAS 17~~IPSAS 45 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

….

Effective Date

…

103B. **Paragraphs 5, 31, 32, 36, 60, 84, 94, and AG45 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.**

…

Application Guidance

…

Lessee Involvement with the Underlying Asset before the Commencement Date

Costs of the lessee relating to the construction or design of the underlying asset

….

AG45. If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as ~~IPSAS 17~~IPSAS 45. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

…

Amendments to IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations

Paragraphs 16, 32, 37 and BC7 are amended. Paragraph 58A is added. New text is underlined, and deleted text is struck through.

…

Classification of Non-current Assets (or Disposal Groups) as Held for Sale or as Held for Distribution to Owners

….

16. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*.

….

Recognition of Impairment Losses and Reversals

….

32. A gain or loss not previously recognized by the date of the sale of a non-current asset (or disposal group) shall be recognized at the date of derecognition. Requirements relating to derecognition are set out in:

(a) Paragraphs ~~82-87~~62-68 of ~~IPSAS 17~~IPSAS 45 for property, plant, and equipment; and

(b) Paragraphs 111-116 of IPSAS 31 *Intangible Assets* for intangible assets.

…

37. The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in surplus or deficit[7] from continuing operations in the period in which the criteria in paragraphs 12-15 or 19, respectively, are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale or as held for distribution to owners is a controlled entity, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of financial performance used to present a gain or loss, if any, recognized in accordance with paragraph 47.

7. Unless the asset is property, plant, and equipment or an intangible asset that had been revalued in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 31 before classification as held for sale, in which case the adjustment shall be treated as a revaluation increase or decrease.

Effective Date

…

58A. **Paragraphs 16, 32, 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.**

…

Basis for Conclusions

…

Scope

…

BC7. ~~The~~ When this Standard was issued, the IPSASB had also discussed whether disclosures requiring the carrying amount of surplus non-current assets or non-current assets that are to be transferred to other public sector entities should have been added to IPSAS 45~~17~~, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The IPSASB had decided that because these transactions were ~~are~~ beyond the scope of IPSAS 44 (as noted above in BC 6) and were ~~are~~ not consequential amendments arising from this Standard, it ~~is~~ was not appropriate to include a requirement for such disclosures in IPSAS 44. The IPSASB had also noted that IPSAS 45~~17~~ encouraged~~s~~ disclosures for temporarily idle property, plant, and equipment, and property, plant, and equipment retired from active use that is not within the scope of IPSAS 44. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

Introduction

BC1. IPSAS 17, *Property, Plant, and Equipment* was drawn primarily from International Accounting Standard (IAS) 16 (Revised 2003), *Property, Plant, and Equipment*. The IPSASB reviewed IASB's improvements to IFRS and narrow scope amendments to IAS 16 (up to May 2020) and generally concurred with the IASB's reasons for revising the IAS and with the amendments made with the exception noted in paragraphs BC24. The IPSASB revised IPSAS 17 to reflect these improvements and amendments, as appropriate.

BC2. After considering responses to the Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*, and constituents' feedback on infrastructure assets the IPSASB concluded that:

(a) IPSAS 17 should fully apply to heritage assets that are property, plant, and equipment; and

(b) Additional authoritative and non-authoritative guidance should be included in IPSAS 45 to clarify its application to heritage and infrastructure assets.

This resulted in the development of ED 78, *Property, Plant, and Equipment* proposing the replacement of IPSAS 17.

Background

Development of ED 78, Property, Plant, and Equipment

BC3. In March 2020, the IPSASB had agreed that heritage assets should be recognized as property, plant, and equipment when they satisfy the IPSAS 17 definition and the recognition criteria (see paragraph 6). Because heritage assets are subsets of property, plant, and equipment and should be treated in accordance with the principles in IPSAS 17.

BC4. The IPSASB developed ED 78 to update its existing property, plant, and equipment guidance in IPSAS 17 to help constituents apply the principles to heritage and infrastructure assets. To this effect, additional authoritative, and non-authoritative guidance was issued. The IPSASB notes that such guidance is applicable to all property, plant, and equipment.

Heritage Assets: Additional Guidance

BC5. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include additional authoritative guidance to support the application and implementation of this Standard's principles to heritage assets. On the basis that no principles existed to address these topics, the IPSASB decided to add authoritative guidance on:

(a) Characteristics of heritage assets (see paragraphs AG2-AG3);

(b) Heritage assets as a resource and assessment of control (see paragraphs AG9-AG11);

(c) Depreciation (see paragraphs 52-55 and AG28); and

(d) Disclosures on unrecognized heritage assets (see paragraphs 77-78 and paragraphs AG37-AG38).

BC6. When developing ED 78, the IPSAS had considered whether IPSAS 45 should include additional non-authoritative guidance to enhance the consistency of entities' application and implementation of IPSAS 45 to heritage assets. On this basis, the IPSASB decided to add non-authoritative guidance on:

(a) Control (see paragraphs IG6-IG8);

(b) Recognition related to subsequent expenditure on unrecognized heritage assets (see paragraph IG9);

(c) Capitalization thresholds (see paragraphs IG10-IG14);

(d) Measurement at current value (see paragraphs IG18-IG21); and

(e) Depreciation related to useful lives (see paragraphs IG30-IG33).

BC7. In developing IPSAS 45, the IPSASB decided to include additional non-authoritative guidance as noted in this Basis for Conclusions:

(a) Measurement of Heritage Assets (see Decision Tree in the Implementation Guidance); and

(b) Measurement at current value (see paragraphs IG15-IG17).

Infrastructure Assets: Additional Guidance

BC8. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include additional guidance to enhance the consistency of entities' application and implementation of IPSAS 45 to infrastructure assets. The IPSASB decided to add authoritative guidance on:

(a) Characteristics and examples of infrastructure assets (see paragraphs AG4-AG6);

(b) Assessment of control (see paragraphs AG10-AG11); and

(c) Identifying parts of infrastructure assets (see paragraph AG24).

BC9. When developing ED 78, the IPSAS had considered whether IPSAS 45 should include non-authoritative guidance to enhance the consistency of the entities' application and implementation of IPSAS 45. On this basis, the IPSASB decided to add non-authoritative guidance on:

(a) Control of land under or over infrastructure assets (see paragraphs IG1-IG5 and IE1-IE5);

(b) Capitalization thresholds (see paragraphs IG10-IG14);

(c) Valuing land under or over infrastructure assets (see paragraphs IG23-IG25);

(d) Identifying parts of infrastructure assets (see paragraphs IG34-IG38);

(e) Use of information in asset management plans for financial reporting (see paragraphs IG39-IG40); and

(f) Under-maintenance of assets (see paragraphs IG41-IG44).

No Additional Guidance

BC10. When developing ED 78, on the basis that sufficient guidance existed, the IPSASB had concluded that no additional guidance was needed in IPSAS 45 to address:

(a) A separate definition for infrastructure assets because they are property, plant, and equipment;

(b) Spare parts for infrastructure assets;

(c) Costs to dismantle infrastructure assets;

(d) Separately accounting for land under or over infrastructure assets;

(e) Renewals accounting;

(f) Impairment; and

(g) Derecognition.

The IPSASB included its rationale for not adding guidance to address these issues in the Basis for Conclusions to inform constituents that the IPSASB had considered these issues.

IPSAS 45, Property, Plant, and Equipment

BC11. This Standard replaces IPSAS 17, *Property, Plant, and Equipment* and is based on IAS 16, *Property, Plant, and Equipment*. In accordance with existing practice, this Basis for Conclusions outlines only those areas where IPSAS 45 departs from the main requirements of IAS 16[2] or where the IPSASB considered further guidance is needed to enhance consistent application of principles to address a prevalent public sector specific issue.

BC12. When developing this Standard, the IPSASB decided to relocate IPSAS 17 guidance that supports core principles to the application guidance, generic measurement guidance to IPSAS 46, *Measurement*, and add guidance for accounting for heritage assets and infrastructure assets in scope of the Standard. Responses received to ED 78 did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the structure or principles in IPSAS 45.

Scope

Remove the Heritage Scope Exclusion Paragraphs

BC13. The IPSASB concluded that the principles in IPSAS 45 should fully apply to heritage assets and decided to remove the scope exclusion for heritage assets, on the basis that:

(a) Recognition of heritage assets will increase the transparency of heritage-related financial information so that users are better able to hold entities accountable for their heritage-related decisions, particularly those that support heritage preservation;

(b) Their heritage nature does not prevent heritage items being assets for financial reporting purposes;

(c) Many heritage items are assets and should be recognized in the statement of financial position when they meet the IPSAS 1, *Presentation of Financial Statements* recognition criteria of an asset;

(d) Since the heritage nature of an item is not, by itself, a reason for special financial reporting requirements, a separate heritage focused IPSAS is unnecessary; and

(e) Where heritage items are within the scope of another IPSAS, that Standard should apply (for example, IPSAS 31, *Intangible Assets* should be applied for heritage assets that are intangible in nature).

Move List of Property, Plant, and Equipment to Application Guidance

BC14. The IPSASB noted that the list of different types of property, plant, and equipment included in the scope of IPSAS 17 was more in the nature of application guidance than that of principles to be included in core text. On this basis, the IPSASB had decided that the list and related descriptions should be moved to the application guidance.

Definition of Property, Plant, and Equipment

Definition of Property, Plant, and Equipment

BC15. The IPSASB had noted that the definition of property, plant, and equipment in IPSAS 17 referred to 'tangible items' instead of 'tangible assets' and that a strict application of this definition could lead to the recognition of an item that did not meet the definition of an asset in IPSAS 1 *or* the *Conceptual Framework*[3]. The lack of

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[2] 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.

[3] An asset is defined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and IPSAS 1, *Presentation of Financial Statements* and contains three common components: resource(s), control and past event.

reference to 'asset' caused confusion in practice because there are instances when it is uncertain whether an item is a resource or it is controlled by the entity. To address the uncertainty, the IPSASB had decided to:

(a) Replaced the term "tangible items" with "'tangible assets," in the definition of property, plant, and equipment (see paragraph 5);

(b) Added authoritative guidance on resource and control (see paragraphs AG9 and AG10-AG11 respectively); and

(c) Added non-authoritative implementation guidance and illustrative examples on control (see paragraphs IG1-IG8 and IE1-IE5 respectively).

BC16. One of the responses received to ED 78 noted that paragraphs AG8-AG15 of ED 78 were a duplication of content found in the *Conceptual Framework* and suggested removing the content and instead, make a cross-reference to the *Conceptual Framework*. The IPSASB discussed that this authoritative guidance was added to ED 78 to ensure consistency of principle application, specifically to help an entity determine whether an item met all three criteria of the definition of an asset, but specifically two of the three criteria of an asset, resource and control. Rather than removing the guidance and adding a cross-reference to the *Conceptual Framework*, the IPSASB decided to keep guidance on the two key topics (i.e., whether a heritage item is a resource and assessment of control for both heritage and infrastructure items).

Characteristics of Heritage and Infrastructure Assets

BC17. The IPSASB had decided neither heritage nor infrastructure assets needed to be defined, because they were subsets of property, plant, and equipment and therefore, the principles in this Standard apply to heritage and infrastructure assets.

BC18. Based on responses to the Heritage CP and constituents' comments related to infrastructure, the IPSASB had concluded that ED 78 should include application guidance, including specific characteristics of heritage and infrastructure, to help entities identify their heritage assets (see paragraphs AG2-AG3) and infrastructure assets (see paragraphs AG4-AG6) from other property, plant, and equipment. The IPSASB had decided to only include characteristics that distinguished heritage and infrastructure assets from other property, plant, and equipment, and which presented complexities in the application and implementation of the principles in ED 78, as opposed to including an exhaustive list of the characteristics of heritage and infrastructure assets.

BC19. A few responses to ED 78 recommended the IPSASB to expand AG3(a) to reflect that heritage assets also have restrictions on their disposal, which present complexities in the application and implementation of ED 78 principles, specifically on the measurement of heritage assets. The IPSASB agreed that restrictions on the disposal of heritage assets, similarly to restrictions on their use, present complexities in the application and implementation of IPSAS 45 principles, although not a unique characteristic to heritage assets.

BC20. In developing IPSAS 45, the IPSASB decided to expand the characteristics for heritage assets and to retain the characteristics for infrastructure assets from ED 78 in IPSAS 45. Except as noted in BC19, responses to ED 78 on heritage and infrastructure assets characteristics did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the principles in IPSAS 45.

Recognition

Deemed Cost of Non-Exchange Transactions

BC21. When developing ED 78, the IPSASB decided to replace the terminology of 'fair value' on the initial measurement of a non-exchange transaction of an item or property, plant, and equipment with 'deemed cost'. This was proposed for alignment with the initial measurement principles in IPSAS 46.

BC22. A response to ED 78 suggested a definition of deemed cost be included in IPSAS 45. The IPSASB discussed that deemed cost for assets acquired in a non-exchange transaction is fair value, in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS).* The IPSASB noted that ED 78's proposal added unintended complexity as it now required an entity to review IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* to understand which measurement basis to apply for deemed cost of a non-exchange transaction at recognition. However, the proposal was not intended to change the initial measurement of Plant, Property, and Equipment acquired in a non-exchange transaction.

BC23. Following the development of current operational value in IPSAS 46, the IPSASB discussed how to measure 'deemed cost' and concluded that fair value or current operational value are appropriate. The IPSASB further decided the guidance on deemed cost would be included in IPSAS 46.

Weapons Systems

BC24. When IPSAS 17 was revised as a result of Part III of *Improvements to IPSAS 2015,* the IPSASB had considered that 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. At that time, the IPSASB had 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 while increasing consistency with GFS reporting guidelines. In developing IPSAS 45, the IPSASB concluded that the same principles should apply and continued to use the term "weapons systems" with a description (see paragraph AG7).

Heritage Assets: The Operational/Non-Operational Distinction

BC25. The IPSASB had considered whether only those heritage assets that are used for non-heritage purposes, called "operational" heritage assets, should be recognized. Operational heritage assets include, for example, a heritage bridge that functions as a bridge or a heritage railway station that is used as a railway station. Some national jurisdictions use the term "non-operational" to describe heritage assets that are used purely for heritage purposes. For example, museum collections held for public appreciation are non-operational heritage assets. Some constituents argued that non-operational heritage assets should not be recognized.

BC26. However, the IPSASB had concluded that both operational and non-operational heritage items can be assets, since both can meet the IPSAS 1's definition of an asset (resource, control, past event). On this basis, the IPSASB had decided that the distinction is not relevant to a decision on whether or not to recognize a heritage item as an asset.

Spare Parts for Infrastructure Assets

BC27. The IPSASB considered whether ED 78 provided sufficient guidance on the accounting treatment of spare parts for infrastructure assets. The IPSASB had concluded that accounting for spare parts is a generic issue and that sufficient authoritative guidance existed in ED 78 for infrastructure asset spare parts that meet the definition of property, plant, and equipment, and in IPSAS 12, *Inventories* for spare parts that meet the definition of inventory.

Capitalization Thresholds

BC28. The IPSASB considered the issues identified by constituents with respect to establishing capitalization thresholds for costs related to infrastructure assets. The IPSASB had concluded that this issue applies broadly to property, plant, and equipment, and that any guidance should also apply broadly, and not be restricted to applying only to infrastructure assets.

BC29. The IPSASB had noted that this issue is generally considered to be a practical issue that is best addressed by management. Entities' management consider their specific assets holdings, and apply the need to meet users' information needs, materiality, and cost-benefit. However, the IPSASB concluded that there is scope for guidance on the factors for consideration when entities set their capitalization thresholds. On this basis, the IPSASB decided to add implementation guidance (see paragraphs IG10-IG14) on the factors to consider when establishing capitalization thresholds for property, plant, and equipment.

Disclosures Related to Unrecognized Heritage Property, Plant, and Equipment

BC30. When developing ED 78, the IPSASB had considered the issues identified by constituents with respect to disclosures related to unrecognized heritage assets. Being able to measure an asset in a way that achieves the qualitative characteristics and takes account of the constraints on information included in General Purpose Financial Statements (GPFSs) is necessary for recognition of an asset in the financial statements. ED 78 stated, in paragraph 6, that property, plant, and equipment must be measured reliably to be recognized. The IPSASB had agreed with constituents that heritage assets may present measurement difficulties which prevent their recognition, but that information on such assets could be important to meet users' needs.

BC31. In considering the need for additional disclosures when heritage property, plant, and equipment is not recognized, the IPSASB had noted that, as explained in the *Conceptual Framework*, disclosures in the notes to the financial statements:

(a) Can provide information on elements that cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting;

(b) Are appropriate when knowledge of the item is relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting; and

(c) May include items that do not meet the recognition criteria but are important to an understanding of the entity's finances and ability to deliver services.

BC32. The IPSASB had noted that there were cases where the cost or current value of heritage property, plant, and equipment was not able to be measured reliably and therefore, the assets could not be recognized. Information about the contribution of such assets to the delivery of the entity's objectives would nonetheless be useful to users of the financial statements.

BC33. The IPSASB had decided to include a requirement for additional disclosures on heritage property, plant, and equipment that is not recognized because it cannot be measured reliably on the basis that such information contributes to:

(a) Achievement of the objectives of financial reporting; and

(b) Users' understanding of the entity's finances and ability to deliver services for accountability and decision-making purposes.

Therefore, ED 78 included paragraph 77, which established that additional disclosures were required, and application guidance for such disclosures was added in paragraphs AG37-AG38.

BC34. Responses to ED 78 requested for the disclosure requirement to be expanded to either infrastructure assets or to all property, plant, and equipment that is not recognized because it cannot be measured reliably. The IPSASB noted that measurement challenges, which prevent recognition of a tangible asset, were specific to heritage assets.

BC35. In developing IPSAS 45, the IPSASB decided to retain the ED 78 proposal in IPSAS 45 because the responses received to ED 78 did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the principles in IPSAS 45.

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

BC36. The IPSASB considered constituents' views on additional guidance on decisions to capitalize or expense subsequent expenditure on unrecognized heritage assets. The IPSASB concluded that there is sufficient authoritative guidance addressing heritage-related concerns. The IPSASB's decision to not have a heritage scope exclusion in ED 78, resulted in the Standard's authoritative guidance fully applying to heritage assets. Therefore, heritage assets that satisfy the recognition criteria shall be recognized. Given measurement difficulties associated with heritage assets, however, the IPSASB acknowledged that some heritage assets may not be able to be recognized. The IPSASB decided that application guidance should be added (see paragraph AG20) to establish that paragraph 6's principles apply to the recognition of subsequent expenditure on unrecognized heritage assets. The IPSASB further decided to include additional implementation guidance (see paragraph IG9), which is needed to support decisions on when to capitalize or expense subsequent expenditure on unrecognized heritage property, plant, and equipment.

Measurement

Measurement of Heritage Assets

BC37. The IPSASB received requests for additional non-authoritative guidance for the recognition and measurement of heritage assets. The IPSASB decided to add implementation guidance, which walks an entity through the recognition criteria, in paragraph 6, and includes initial measurement considerations to help an entity in the recognition and measurement of heritage assets.

Initial Measurement

BC38. A response to ED 78 noted a cross reference to ED 77, *Measurement* on initial measurement stating an entity shall apply ED 77 when measuring an item of property, plant, and equipment. The respondent asked the IPSASB to clarify the scope of each standard and on the terminology differences for initial measurement between ED 78 and ED 77, 'at cost' and 'at transaction price' respectively.

BC39. The IPSASB discussed that terminology in IPSAS 45 was carried forward from IPSAS 17, to reflect continued alignment with IAS 16 terminology and that this core principle from IPSAS 17 remains unchanged. Additionally, the IPSASB noted that ED 78 contained specific initial measurement guidance (see paragraph 11) and guidance in ED 77 is generic, therefore not developed to replace existing detailed guidance in any specific IPSAS.

BC40. In developing IPSAS 45, the IPSASB decided to:

(a) Retain IPSAS 17 terminology 'at cost' for initial measurement;

(b) Remove the cross reference from IPSAS 45, *Property, Plant, and Equipment* to IPSAS 46 on initial measurement of property, plant, and equipment to remove the circularity between these standards; and

(c) Revise paragraph 5 in IPSAS 46 to reflect that when specific guidance on initial and subsequent measurement is included in an individual IPSAS, such guidance shall be applied.

Elements of Cost

Costs to Dismantle Infrastructure Assets

BC41. The IPSASB considered whether sufficient guidance existed for accounting for costs to dismantle infrastructure assets when there is a need to highlight the impact of the future environmental or decommissioning costs on the value of acquired property, plant, and equipment, including infrastructure assets.

BC42. The IPSASB decided that this issue was not specific to infrastructure assets, and no additional guidance was necessary, because sufficient authoritative guidance existed in:

(a) ED 78 that stated that the cost of an item of property, plant, and equipment included the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; and

(b) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* that requires a public sector entity to recognize a provision for decommissioning costs to the extent that the public sector entity is obliged to rectify damage already caused.

Subsequent Measurement

Accounting Policy Choice

BC43. The IPSASB considered whether additional guidance was necessary to assist in making the accounting policy choice of subsequently measuring classes of property, plant, and equipment either on a historical cost or current value model.

BC44. The IPSASB concluded no additional guidance was needed. Management should continue to apply its judgment in choosing an accounting policy that results in information that:

(a) Is relevant to the accountability and decision-making needs of users;

(b) Faithfully represents the financial position, financial performance, and cash flows of the entity;

(c) Meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability; and

(d) Considers the constraints on information included in GPFSs and the balance between the qualitative characteristics.

Current Value Model

Measurement Bases

BC45. During the development of IPSAS 46, the IPSASB had considered concerns raised by respondents with regard to the application of fair value in the public sector. While respondents agreed fair value was applicable in some circumstances, they raised concerns about its applicability to public sector assets held for their operational capacity. Respondents suggested it was inappropriate to apply fair value to those assets because the following concepts are not applicable:

(a) Highest and best use; and

(b) Maximizing the use of market participant data.

BC46. The IPSASB had decided to address respondents' concerns by developing a public sector specific measurement basis – Current Operational Value. This measurement basis addressed the measurement of assets held for their operational capacity.

BC47. When developing ED 78, the IPSASB had proposed that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value.

BC48. Some responses to ED 78 raised concerns about basing the measurement basis on management's intent, particularly as it will reduce the comparability of financial statements and reduce consistency of principle application. These respondents were of the view that the selection between measurement bases should be driven by facts and circumstances, such as the reason why the asset is held, and that a change between measurement bases is only appropriate when there is a change in the primary objective for which the entity holds the asset.

BC49. Other responses to ED 78 requested additional non-authoritative guidance on when a change between current value measurement bases was appropriate and how to make the selection between measurement bases, as it may be difficult to determine whether an asset is held for operational or financial capacity (for example, a mixed-use office building) if the measurement bases are applied to an entire class of property, plant, and equipment.

BC50. The IPSASB acknowledged that current operational value was developed to address a public sector specific need for a measurement basis that was more representative of the current value of assets held for their operational capacity in the public sector. The IPSASB further discussed, as noted in BC45(a) and BC45(b), that it was inappropriate to apply fair value concepts of 'highest and best use' and 'maximizing the use of market participant data' for assets held for their operational capacity.

BC51. The IPSASB agreed that it would seem contradictory for the decision of measurement basis in the current value model to be a free choice, considering the guidance included in paragraph 29 and AG26-AG27 of ED 78 and the reason behind the development of current operational value as a measurement basis for public sector assets held for their operational capacity.

BC52. The IPSASB also discussed whether the measurement bases should be applied to an entire class of property, plant, and equipment or whether it should be applied at the item or part of an item of property, plant, and equipment level, taking into consideration mixed-use assets (BC49). Additionally, the IPSASB considered whether a cross reference from IPSAS 45 to IPSAS 46 was needed to help entities on the selection of current value measurement bases.

BC53. The IPSASB concluded that

(a) An item or part of an item of property, plant, and equipment held for its operational capacity shall be measured at its current operational value, and when it is held for its financial capacity, it shall be measured at fair value (see paragraph 27);

(b) Deemed cost could be measured using either current operational value or fair value;

(c) While measurement models are to be applied to an entire class of property, plant, and equipment, the measurement bases are to be applied to an item or part of an item of property, plant, and equipment (see paragraphs 27-28, AG20-AG23 and IG15);

(d) To include additional implementation guidance on when a change between current value measurement bases is appropriate (see paragraphs IG16-IG17); and

(e) A cross reference from IPSAS 45 to IPSAS 46 is not necessary because application guidance on whether property, plant, and equipment is held for operational or financial capacity is included in this Standard (see paragraphs AG20-AG23).

Current Value Measurement of Heritage Assets

BC54. The IPSASB considered constituents' views on the need for guidance on application of the current value model to heritage assets. The IPSASB decided that additional implementation guidance is needed on measurement at current value when heritage assets are viewed as irreplaceable, and have restrictions on their use to ensure consistent application and implementation of this Standard's principles (see paragraphs IG19-IG22).

Valuing Land Under or Over Infrastructure Assets

BC55. The IPSASB considered whether existing guidance in IPSAS 17 addressed the approach to valuing land under or over infrastructure assets such as land under roads and railways.

BC56. The IPSASB decided to add non-authoritative implementation guidance to this Standard to clarify the existing principles related to the valuation of land under or over infrastructure assets (see paragraphs IG23-IG25).

Depreciation

Finite and Indefinite Useful Lives

BC57. When developing this Standard, the IPSASB noted that generally, land has an indefinite useful life and therefore, is not depreciated. Exceptions, where land should be depreciated include:

(a) Land is being consumed due to depletion (such as mines and quarries or landfill sites); or

(b) Land is being lost or displaced as a result of natural phenomena such as climate change (for example, rock or soil erosion, or desertification).

BC58. The IPSASB decided that the IPSAS 17 discussion of useful lives should be revised to better address situations where land has a finite useful life and should be depreciated (see paragraphs 52-55). During its consideration of this issue and those raised by heritage assets' useful lives, the IPSASB decided that the terminology of finite and indefinite useful lives, as used in IPSAS 31, should be used in ED 78. This provided consistent terminology across IPSAS when considering useful lives for asset depreciation.

BC59. The IPSASB further decided that the revised core text and related application guidance should also provide guidance to address situations where items of property, plant, and equipment (e.g., heritage assets, discussed further below) could have indefinite useful lives and therefore, should not be depreciated.

BC60. The IPSASB considered that most non-land property, plant, and equipment have finite useful lives. On this basis, the IPSASB decided to include a rebuttable presumption that non-land property, plant, and equipment has a finite useful life, so that an entity must have evidence to rebut that presumption before it can treat non-land property, plant, and equipment as having an indefinite useful life (see paragraph 52).

Depreciation of Heritage Assets

BC61. When developing ED 78, the IPSASB had concluded based on responses to the CP, *Financial Reporting for Heritage in the Public Sector*, that the same depreciation requirements applied to other types of property, plant, and equipment shall apply to heritage assets. Where respondents disagreed with that approach, some argued against depreciation, while others stated that guidance was needed on how to estimate heritage assets' useful lives and identify heritage assets for which there is no depreciation expense. On the basis that many heritage assets were consumed over time, as they delivered services and/or economic benefits, the IPSASB had concluded that heritage assets can be depreciable assets.

BC62. However, the IPSASB had further concluded that heritage assets may have very long and even indefinite useful lives, due to factors such as their nature and/or the circumstances in which they were held. On this basis, the IPSASB had decided that useful lives should be clarified to apply to situations where property, plant, and equipment have indefinite useful lives.

BC63. To support entities' assessments of whether a heritage asset has a finite or indefinite useful life, the IPSASB had decided to add non-authoritative implementation guidance (see paragraphs IG30-IG33).

Identifying Parts of Infrastructure Assets that Should Be Separately Depreciated

BC64. The IPSASB considered whether it was a challenge to determine the appropriate unit of account when identifying significant parts of infrastructure assets that should be separately depreciated.

BC65. The IPSASB noted the existing principles are clear that an asset could have different units of account for depreciation because parts of an item of property, plant, and equipment with a significant cost in relation to the total cost of the item shall be depreciated separately. This principle holds true for infrastructure assets, but judgment needs to be exercised in determining or identifying the units of account, which may be separate assets in their own right (see paragraph 8).

BC66. The IPSASB decided to revise the example in paragraph AG6 which listed a number of assets (such as curbs and channels, pavements and bridges) that make up the road system as the units of account or parts that should be identified for separate recognition and depreciation to illustrate the principle of depreciating separately the parts of items of property, plant, and equipment at the appropriate level.

BC67. The IPSASB acknowledged that the separate units of account described in the example may be relevant in some jurisdictions but considered that jurisdictions will apply judgment in determining the appropriate units of accounts for their circumstances.

BC68. The IPSASB decided to add implementation guidance (see paragraphs IG34-IG38).

Annual Impairment Tests for Property, Plant, and Equipment with Indefinite Useful Lives

BC69. The IPSASB had decided that where an entity has assessed property, plant, and equipment as having indefinite useful lives it is important that the assets be reviewed regularly for indicators of impairment. On this basis the IPSASB decided to insert a requirement for annual reviews for indicators of impairment applied to such assets into ED 78 (see paragraph 56.

Separately Accounting for Land and Infrastructure Assets

BC70. The IPSASB considered the issue of whether land and infrastructure assets are separate assets that should be separately accounted for.

BC71. The IPSASB decided that no additional authoritative guidance should be included in ED 78 because the guidance is clear that:

(a) Land and buildings are separable assets and are accounted for separately (e.g., separate recognition and measurement) even when they are acquired together (see paragraph 50); and

(b) Land, buildings, roads and electricity transmission networks are examples of separate classes of property, plant, and equipment that should be separately disclosed (see paragraphs 34 and 69).

Renewals Accounting

BC72. The IPSASB considered whether "renewals accounting" was an appropriate technique to estimate depreciation of property, plant, and equipment when these are managed in accordance with a detailed asset management plan.

BC73. The IPSASB concluded there is no definitive “renewals accounting” method and that this technique should not be used in its literature to estimate depreciation of property, plant, and equipment given the numerous interpretations across different jurisdictions.

Use of Information in Asset Management Plans for Financial Reporting

BC74. When developing this Standard, the IPSASB had noted that many public sector entities have asset management plans that facilitate the proper management of an item of property, plant, and equipment over its life cycle. These asset management plans are usually developed by qualified experts and focus on the operational aspects of the item of property, plant, and equipment.

BC75. The IPSASB noted that, where these asset management plans are kept up to date by qualified experts and the information is reliable, these plans could provide detailed information relevant for accounting for property, plant, and equipment.

BC76. The IPSASB decided to add implementation guidance to clarify when asset management plans might provide information useful for financial reporting purposes when accounting for property, plant, and equipment (see paragraphs IG39-IG40).

Impairment

Liabilities for Future Preservation/Maintenance of Heritage and Infrastructure Assets

BC77. When developing this Standard, the IPSASB considered whether an entity’s intention to preserve and/or maintain heritage and infrastructure assets could give rise to liabilities. For a liability to exist the entity must have an unavoidable present obligation (i.e. little or no realistic alternative to avoid) to incur future expenditure to an external party.

BC78. While acknowledging that entities who hold heritage and infrastructure assets often intend to preserve and/or maintain them and there may be expectations on the entity to do so, the IPSASB concluded that neither intentions nor expectations are sufficient to establish a present obligation.

BC79. The IPSASB concluded no liability arises from the entity’s plan and/or intention to preserve and/or maintain heritage and infrastructure assets, unless there were arrangements in place that create an obligation to an external party for the entity.

Impairment of Heritage and Infrastructure Assets

BC80. The IPSASB considered if sufficient guidance existed on whether an infrastructure asset is impaired when one part of the network or system becomes damaged or inoperable. The IPSASB also considered whether additional guidance is needed to address the impairment of heritage assets.

BC81. The IPSASB decided no additional guidance is necessary because sufficient authoritative impairment guidance exists in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, to adequately address the impairment of both heritage and infrastructure assets, including guidance for entities to determine when a part of the network or system was impaired.

Under-Maintenance of Assets

BC82. The IPSASB considered the issue that guidance did not articulate whether “backlog maintenance” or “deferred maintenance” should be recognized in the financial statements.

BC83. The IPSASB had decided not to use the terms, “backlog maintenance” or “deferred maintenance” because the terms have several interpretations and applications across different jurisdictions. The IPSASB clarified that the issue highlighted by constituents related to the “under-maintenance of assets”.

BC84. Even though IPSAS 17 principles are clear on the accounting for assets that are "under-maintained", the IPSASB decided to add implementation guidance to clarify the accounting for "under-maintenance of assets" in ED 78 (see paragraphs IG41-IG44).

Recoverable Amount

BC85. IAS 16 defines recoverable amount as "the higher of an asset's fair value less costs of disposal and its value in use." IPSAS 17 refers to the IPSAS 26 definition of recoverable amount which is defined as "the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use." The definition in IPSAS 17 is the same as in IPSAS 26 but differs slightly from the definition in IAS 16. In developing IPSAS 45*,* the IPSASB noted that this departure from IAS 16 on the definition of recoverable amount is still applicable in IPSAS 45.

Derecognition

Derecognition of Infrastructure Assets

BC86. When developing this Standard, the IPSASB had considered whether sufficient derecognition guidance with respect to accounting for infrastructure assets existed. The IPSASB had noted the derecognition issue arose because parts of infrastructure assets were constantly replaced and there could be a lack of detailed accounting records to support the derecognition of the carrying amounts of the parts that are replaced.

BC87. The IPSASB decided not to add additional derecognition guidance in this Standard because sufficient authoritative derecognition guidance exists and the challenges identified by constituents when accounting for derecognition of parts of infrastructure assets appeared administrative and related to record keeping.

Presentation—Display and Disclosure

Heritage: Focus on Information in the Financial Statements

BC88. When developing this Standard, the IPSASB noted that some jurisdictions disclosed supplementary information about heritage assets as a substitute for recognizing heritage assets in the financial statements. Supplementary disclosures may include qualitative information that is not commonly included in the financial statements. This type of information could be useful for broader accountability purposes such as reporting on an entity's heritage-related service performance.

BC89. The IPSASB concluded that it would focus on guidance related to the financial statements on the basis that the *Recommended Practice Guidelines* (RPG) provides sufficient guidance for reporting supplementary information about heritage assets outside of the financial statements. The RPG Guidelines allow entities to align heritage-related supplementary information to the specific information needs arising from their heritage holdings, heritage-related objectives, and national or local context.

Transitional Provision

BC90. When developing ED 78, the IPSASB had decided that IPSAS 45 shall be applied retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except that an entity may elect to measure heritage assets at current value when reliable cost information for these assets was not available. In developing IPSAS 45, the IPSASB acknowledged that an additional transitional provision was needed for the initial application of IPSAS 45 current value measurement bases. The IPSASB decided to include additional authoritative guidance reflecting that rather than restating comparative periods, an entity shall recognize the effect of initially applying current operational value and fair value basis in the current value model as an adjustment to the opening accumulated surplus or deficit at the date of initial application of IPSAS 45 (see paragraph 87(b)).

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

IG1. **Assessing Control:** An entity controls a resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. Paragraph AG10 identifies the indicators of control as follows:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict others to access the resource;

(c) The means to ensure that the resource is used to achieve its objectives; or

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

IG2. **Control over tangible items**: This implementation guidance focuses on control over items of property, plant, and equipment, where the resource is represented by a tangible item. Intangible assets arising from a loan, lease or other type of "right to use" are not addressed in this implementation guidance because they are outside of IPSAS 45's scope.

IG3. **Apply judgment**: The entity applies judgment to the facts of each situation when:

(a) Assessing the existence of indicators of control; and

(b) Reaching a view on whether or not control exists.

Control of Land Under or Over Property, Plant, and Equipment

Property, plant, and equipment can be built on land that is fundamental to the operation of the item but is owned by another entity. For example, State or Municipal Governments may construct road networks on land that is owned by another level of government. Should the entity that controls the property, plant, and equipment also recognize the land?

IG4. Where an item of property, plant, and equipment is built on land owned by another level of government, legal ownership of that land will not be held by the entity constructing the property, plant, and equipment. However, legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits or service potential that may flow from it.

IG5. When assessing whether land, owned by another level of government, under an item of property, plant, and equipment is controlled by the entity, the entity considers the rights it has to continue to operate the item of property, plant, and equipment. If the ongoing operation of the item of property, plant, and equipment is dependent on the other level of government continuing to grant the entity access to the land, it is unlikely the entity controls the land.

Control over Items in a Heritage Collection

Does an entity have control over items in its heritage collection, when it only has the right to hold the items temporarily, for a defined period under an agreement (or agreements) with another entity (or entities) or individual (group of individuals)?

IG6. No. The entity does not have control over these items in its heritage collection. Applying the application guidance in IPSAS 45 and judgment to the facts of the situation the entity does not have control over the resource represented by the items. This is indicated by the entity only holding the item temporarily, for a defined period. The entity does not have the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives. However, another Standard could apply, for example one that addresses leases or similar arrangements, which includes intangible rights to use a tangible resource within its scope.

Does an entity have control over items in its heritage collection, when it does not have legal ownership but has the right to hold the items for an indefinite period through an arrangement that both parties to the agreement understand to be open-ended?

IG7. Yes. The entity has control over these items in its heritage collection. This is because it has the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Does an entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?

IG8. Yes. The entity still controls items in its heritage collection when it holds them in storage (for example, in a warehouse or research laboratory) instead of displaying them to the public. The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items. This is because it has the ability to use the items or direct other parties about their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Recognition

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

Should an entity capitalize subsequent expenditure on an unrecognized heritage asset when the expenditure meets IPSAS 45's recognition principle?

IG9. Yes. A reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized heritage asset where that expenditure meets IPSAS 45 recognition principle in paragraph 6.

Capitalization Threshold for Costs

What factors should be considered when choosing a capitalization threshold?

IG10. IPSAS 45 paragraph 6 establishes the recognition principle for determining whether costs should be recognized as an asset, i.e., "capitalized" and states that 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 current value of the item can be measured reliably.

IG11. In practice, entities expense some costs that meet this recognition principle, because they fall below a "capitalization threshold," established by management. Capitalization thresholds assume application of the materiality principle. As such, not all property, plant, and equipment with useful lives extending beyond a single reporting period will be capitalized. Many can be expensed without having a material impact on the information reported in the financial statements. Capitalization thresholds guide entities on whether costs should be capitalized and included in the statement of financial position or expensed and included in the statement of financial performance.

IG12. Factors to consider when setting capitalization thresholds include:

(a) **Meeting the information needs of users**: Capitalization thresholds should result in reported information that meets the needs of external users of the financial statements. Capitalization thresholds should result in reported amounts for recognized assets that achieve the qualitative characteristics, including relevance and representational faithfulness.

(b) **Materiality**: Capitalization thresholds should be such as to ensure that material asset values are captured. Appropriate capitalization thresholds guide entities to capitalize items that would materially impact the information about assets and expenses in the financial statements, and expense those items that would not materially impact that information.

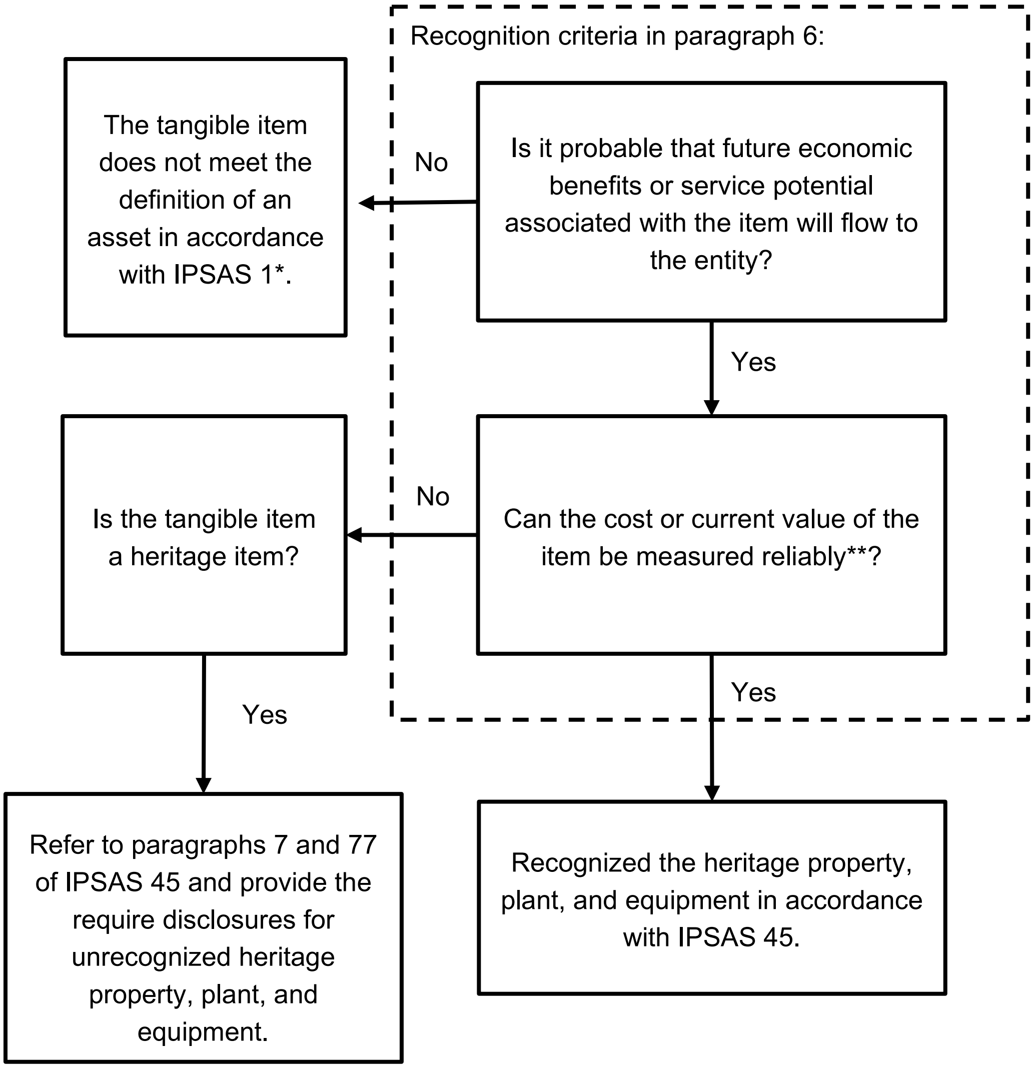
(c) **Cost-benefit**: When capitalization thresholds are set at appropriate levels, they reduce the cost of tracking large numbers of small-value items, while still conferring the benefits of meeting users' needs and capturing material values. If a capitalization threshold is set too low, this could create significant additional costs – in the form of work for staff – without any benefit.

IG13. An entity should consider whether different classes of property, plant, and equipment need different capitalization thresholds.

IG14. Capitalization thresholds are often applied to individual items rather than to groups of similar items. However, the cumulative effect on a group of similar assets should be considered when relevant. This may be the case when a group of assets are acquired at the same time as part of a single project, for example assets acquired for an extensive building program.

Decision Tree – Heritage Item

This decision tree accompanies, but is not part of, IPSAS 45.



* **Assets** 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.

**** Measurement Considerations:**

- Cost as described in paragraphs 14-19.
- Current value:
  - Current operational value: The amount the entity would pay for the remaining service potential of an asset at the measurement date.
  - Fair value: The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.
- Reliable information: Information that 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.

Subsequent Measurement

Current Value Model

Measurement Bases

Can a class of property, plant, and equipment measured using the current value model mix current operational value and fair value measurement bases?

IG15. Yes. The measurement model, i.e., historical cost model or current value model, must be applied consistently to an entire class of property, plant, and equipment. As long as the measurement model is applied to an entire class of property, plant, and equipment, different measurement bases can be applied within the class. This may occur when a class of property, plant, and equipment is measured using the current value model. Individual items within this class of property, plant, and equipment may be measured at current operational value or fair value depending on the primary objective for which an entity holds an item, or part of an item, of property, plant, and equipment. (See paragraph 27).

Is a change in current value measurement basis, from current operational value to fair value, considered a change in accounting policy in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*?

IG16. No. The current value measurement basis may change because of a change in the objective for which an entity holds an item or part of an item of property, plant, and equipment.

IG17. For example, a public hospital has ten wards, nine of which have been used for fee-paying patients on a commercial basis, while the tenth ward was used for non-fee-paying patients, The entity decides to repurpose the tenth ward to fee-paying patients on a commercial basis, changing the objective for which the entity holds the tenth ward from operational capacity to financial capacity. As a result, the entity starts measuring the tenth ward at fair value.

Current Value Measurement of Heritage Assets

Do restrictions on the use of heritage assets affect an entity's ability to derive its current value either on initial recognition (if, for example, the asset is donated), or subsequently (when the entity subsequently revalues its heritage assets)?

IG18. No. Restrictions on the use of heritage assets do not affect an entity's ability to derive current values for them. However, restrictions will need to be taken into account when deriving a current value.

Where a heritage asset is viewed as irreplaceable, does this affect an entity's ability to derive its current value?

IG19. No. A view that a heritage asset is irreplaceable does not affect an entity's ability to derive a current value.

IG20. Many heritage assets are viewed as irreplaceable from a heritage perspective. From a financial reporting perspective, the ability to derive a current value involves the ability to ascertain values for equivalent assets. "Equivalent assets" do not have to be identical assets when deriving a current value. Where an entity needs to estimate a current value for a heritage asset, it will need to consider information available on current values, even when, from the perspective of its heritage nature, the asset is irreplaceable. Obtaining current values for heritage assets may be complex and difficult. It could involve judgment to reach an estimate that is derived from a range of possible values. These measurement challenges are a normal part of financial reporting, and not unique to the valuation of heritage assets. The need for professional judgment, expert valuation advice, and/or the use of estimates to derive a current value is not a sufficient basis for concluding that a current value cannot be derived.

IG21. A consideration of the following factors will support an entity's assessment of whether it can derive a current value for a heritage asset:

(a) Replacement of service potential: A current value is likely to be derivable, if the service potential of the heritage asset could be replaced, if necessary, through either:

(i) Purchasing a similar asset; or,

(ii) Reproducing or reconstructing the asset, with reproduction applying to either the whole asset or parts of the asset on either an “as needed” basis or through application of a replacement cycle for the asset.

(b) By contrast, the heritage asset’s current value may not be derivable if its service potential cannot be replaced through purchasing another, similar asset or through reproduction.

IG22. Significance of the heritage asset: A current value is likely to be derivable, if the heritage asset’s service potential mainly relates to its ability to represent an era or type, such that another heritage asset of the same era or same type could be similarly representative.

By contrast, a heritage asset’s current value may not be derivable if its service potential is independent of the heritage asset’s ability to represent an era or type and depends, instead, on something unique and specific to that heritage asset.

Valuing Land Under or Over Infrastructure Assets

How should the land under or over infrastructure assets, such as land under roads or railways, be valued because the related infrastructure assets on top of the land are specialized and held for operational capacity?

IG23. IPSAS 45 is clear that:

(a) Land should be separately accounted for. This requirement applies to all land, including land under or over infrastructure assets; and

(b) Land under or over infrastructure assets accounted for under the current value model should be valued at current operational value or fair value. Because the infrastructure asset itself is a specialized asset, it will often be the case that the market approach will be challenging to apply, and that the asset will be more easily valued using the cost approach.

IG24. IPSAS 46, *Measurement* defines the cost approach as a measurement technique that reflects the amount that will be required currently to replace the service capacity of an asset (often referred to as the current replacement cost).

IG25. The replacement cost of the land is based on the current value of the land based on the existing site. For example, if the road runs through agricultural land, then the current value of the land under that section of the road will be agricultural and if the road runs through an industrial area, then the current value placed on the land under that section of the road will be industrial.

Frequency of Revaluation of Property, Plant, and Equipment

How often should property, plant, and equipment be revalued?

IG26. Paragraph 30 of IPSAS 45 specifies that the frequency of revaluations depends upon the changes in current value of the items of property, plant, and equipment being revalued. When the current 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 choose the current value model to determine whether carrying amounts differ materially from the current value as at reporting date.

IG27. 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 current value and revalues the asset to that amount.

IG28. 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, whether market values are different from their carrying amounts;

(c) During the period, whether 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, adverse or favorable, 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. Favorable 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.

IG29. The list in paragraph IG28 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 value as at the reporting date.

Depreciation

Heritage Assets' Useful Lives

What are the main factors to consider when assessing whether a heritage asset has an indefinite useful life?

IG30. Paragraph 52 states that there is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. For a heritage asset to have an indefinite useful life, an analysis of the relevant factors should show that it is reasonable for the entity to consider that there is no foreseeable limit to the period over which it is expected to provide service potential or be used operationally to generate net cash inflows for the entity. Paragraph 54 states that estimates of useful life, at the time the estimate is made, should reflect projections of the relevant factors that are realistic, rather than optimistic or pessimistic.

IG31. Paragraph AG28 states that a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset is an example of an asset that could have an indefinite useful life.

IG32. The main factors to consider when assessing whether a heritage asset has an indefinite useful life are:

(a) **Period providing service potential**: The entity should expect that, to the best of its knowledge, the period over which the heritage asset will continue to provide service potential and/or future economic benefits will continue indefinitely. The assets' heritage value for future generations should be demonstrable, such that it is reasonable to expect that its heritage value will continue indefinitely.

(b) **Usage**: The usage of the heritage asset should not result in physical wear and tear to the heritage asset.

(c) **Preservation**: The entity should be able to describe the actions it has taken in the past and plans to continue to take to preserve the heritage asset, including adequate protection of heritage assets from the natural elements, where relevant. Preservation plans should include information on the likely availability of staff and financial resources to carry out the entity's preservation activities.

IG33. Entities apply judgment to estimate the useful life of an asset with reference to experience with similar assets. If circumstances change, the entity will need to consider whether the heritage asset still has an indefinite useful life. If the heritage asset is found to have a finite useful life, the entity will then treat it as a depreciable asset and account for it accordingly.

Identifying Parts of Infrastructure Assets that Should be Separately Depreciated

What should be considered when identifying parts of infrastructure asset networks or systems for financial reporting purposes?

IG34. 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 part that will have a material impact or effect on determining the annual depreciation expense.

IG35. Property, plant, and equipment including infrastructure assets do not require separate recognition beyond the level required for financial reporting purposes. IPSAS 45 requires:

(a) Items with a cost or value that is significant in relation to the total cost of the item shall be depreciated separately; and

(b) Significant parts of property, plant, and equipment to be grouped with other significant parts that have a similar useful life and / or depreciation method when determining the depreciation charge.

IG36. One of the characteristics of infrastructure assets is that they are networks or systems comprised by a number of assets. Each of those assets or groups of similar assets may be a separate unit of account and may have parts.

IG37. Judgment is required in determining whether those parts of the assets or similar group of assets that make up the infrastructure asset networks or systems are significant in relation to the whole infrastructure asset network or system when determining whether or not to treat them separately. For financial reporting purposes, the following indicators can be helpful in identifying significant parts of an item of property, plant, and equipment:

(a) Parts should be separately identifiable and measurable;

(b) Parts should have significant value in relation to the asset; and

(c) Parts should have different estimated useful lives.

IG38. The entity must consider the facts and circumstances of the transaction as a whole, and materiality to determine the significant parts for the purposes of calculating depreciation.

Use of Information in the Asset Management Plans for Financial Reporting

Can asset management plans provide information useful for accounting for property, plant, and equipment?

IG39. Yes. Information in asset management plans may be used to account for property, plant, and equipment when the items of property, plant, and equipment are maintained in accordance with a sufficiently detailed asset management plan that is subject to effective internal controls and has reliable and up to date information.

IG40. Information from asset management plans can be a useful source of input to:

(a) Calculate depreciation. Paragraphs 47, 57, AG33 and AG35 indicate that depreciation reflects the consumption of the asset's future economic benefits or service potential by allocating the depreciable amount using a systematic basis over its useful life. Asset management plans may contain information on:

(i) The asset's expected useful life - Asset management plans may include information about the expected useful life based on its design/function/expected use; and

(ii) Expected patterns of asset consumption - Asset management plans may include information about the condition and maintenance history;

(b) Determine the significant parts of property, plant, and equipment. Paragraphs 41 and AG24 stipulate that 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 part. Asset management plans may include information useful to determine or identify these significant parts of property, plant, and equipment which could in turn be useful to calculate depreciation, impairment, and/or facilitate derecognition of items of property, plant, and equipment;

(c) Calculate the estimated costs to maintain, restore and refurbish assets; and

(d) Determine whether there is an indication that property, plant, and equipment may be impaired. The relevant guidance for impairment is available in paragraph 59 of this Standard and IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*.

Impairment

Under-Maintenance of Assets

What is under-maintenance of assets?

IG41. Under-maintenance of assets occurs when the level of maintenance of an asset is insufficient to maintain the service potential or the useful life of the asset.

Could under-maintenance impact the measurement of items of property, plant, and equipment that require constant maintenance such as infrastructure assets?

IG42. Yes. Under-maintenance may affect the measurement of property, plant, and equipment. It may be an indicator for impairment and may also impact the residual value and useful life of the property, plant, and equipment.

IG43. The relevant guidance for impairment is available in paragraph 59 of this Standard and IPSAS 21 or IPSAS 26. The relevant guidance for assessing the residual value and useful life of property, plant, and equipment is available in paragraphs 48 and 49 of this Standard.

IG44. No liability should be recognized when property, plant, and equipment are not adequately maintained because IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* is clear there is no present obligation to recognize maintenance expenses that will be incurred in the future.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

Control of Land under or over Property, Plant, and Equipment

Example 1-Case A (see paragraphs IE1-IE3) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has legal ownership of the land and the right to direct access to the land and to restrict or deny access of others to the land.

IE1. Provincial (State) Government enters into a long-term binding arrangement with the National Government to construct a road that passes through a National Park. The land is legally owned by the National Government and it has the title deeds of the land. The Provincial Government constructs a 200-mile road which connects two of its largest cities, City X and City Y. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities.

IE2. The Provincial Government concludes that the National Government controls the land because the National Government:

(a) Legally owns the land;

(b) Retains all the rights to the land, as it can cancel the binding arrangement at any point in time; and

(c) Retains the ability to generate economic benefits arising from selling the land. The National Government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.

IE3. While the Province has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the National Government is not receiving any service potential or economic benefit from the land while the road is in use, the entity concludes this is insufficient to support its control of the land. Other indicators support control being retained by the National Government.

Example 1-Case B (see paragraphs IE4-IE5) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has unlimited and unrestricted use of the land.

IE4. The facts and circumstances remain the same except the land is transferred to the Provincial Government and the latter has unlimited and unrestricted use of the land and does not legally own the land.

IE5. Even though the Provincial Government does not legally own the land, the Provincial Government concludes it controls the land because it:

(a) Has the right to direct access to the land and to restrict or deny access of others to land because it has unlimited and unrestricted use of the land. The Provincial Government can decide how the land will be used;

(b) Has the ability to generate benefits in the form of economic benefits or service potential from the use of the land; and

(c) Ensures the land is used to achieve the Provincial Government's service potential objective whereby the land will allow the Provincial Government to build a road that will transport vehicles and goods between the two cities.

Disclosures

Example 2 (see paragraph IE6) illustrates the general disclosure principles in paragraph 69-76.

IE6. 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 74(d))	750	500	250	250	–	–	–	–
Sum of Revaluation Deficits (Paragraph 74(e))	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 45, *Property, Plant, and Equipment* is drawn primarily from IAS 16 (issued in December 2003, including amendments up to March 2018), *Property, Plant and Equipment*. The main differences between IPSAS 45 and IAS 16 are as follows:

- IPSAS 45 refers to both "economic benefits" and "service potential", where appropriate, in the section on recognition of an item of property, plant, and equipment, while IAS 16 refers to "economic benefits".
- IPSAS 45 at initial measurement requires that an item of property, plant, and equipment acquired through a non-exchange transaction be measured at its deemed cost. IAS 16 does not have such a requirement.
- The subsequent measurement models in IPSAS 45 are historical cost and current value models, while in IAS 16 the models are cost and revaluation.
- IPSAS 45 for subsequent measurement has two measurement bases in the current value model - current operational value and fair value. IAS 16 revaluation model has only one measurement basis - fair value.
- Under IPSAS 45 revaluation increases and decreases are offset within a class of assets basis, while in IAS 16 are offset on an asset basis.
- IPSAS 45 has disclosure requirements for unrecognized heritage assets, while IAS 16 does not have such a requirement.
- IPSAS 45 does not require the disclosure of the equivalent historical cost amounts, where an entity adopts the current value model and carries items of property, plant, and equipment at revalued amounts, while IAS 16 does.
- IPSAS 45 requires the disclosure of the sum of all revaluations, surpluses and deficits for individual items of property, plant, and equipment within that class. IAS 16 does not have such a disclosure requirement.

COMPARISON WITH GFS

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 45 and GFS will depend on the facts and circumstances of the items of property, plant, and equipment.
- Both IPSAS 45 and GFS require an entity to recognize property, plant, and equipment. However, IPSAS 45 uses accounting terminology whereas GFS uses economic terminology, which may have a similar meaning.
- On initial recognition, IPSAS 45 requires measurement at cost or deemed cost where appropriate. As GFS requires the use of market prices, the same valuation can result.
- On subsequent measurement, IPSAS 45 allows historical cost, current operational value, or fair value measurement bases. In GFS, assets should be measured at market values, so the same valuation can result if the market approach is used as the measurement technique.
- In IPSAS 45 current value model increases or decreases in the carrying amount are recognized in net assets/equity or surplus or deficit, as appropriate. In GFS, changes in market value are recognized as other economic flows.
- Both IPSAS 45 and GFS require capitalization of transaction costs. Transaction costs in IPSAS 45 and GFS are presented together with the items of property, plant, and equipment, though ownership transfer costs of land in GFS are presented in land improvements.
- In IPSAS 45, depreciation can be based on historical cost or on current value, whereas consumption of fixed capital in GFS is always based on current value.
- IPSAS 45 includes disclosure requirements that are not present in GFS.

IPSAS 46—MEASUREMENT

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 13 *Measurement*, published by the International Accounting Standards Board (IASB®). Extracts from IFRS 13 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 Foundation.

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IPSAS 46—MEASUREMENT

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 46, *Measurement* was issued in May 2023.

IPSAS 46, MEASUREMENT

CONTENTS

Objective

1. **The objective of this Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The Standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.**

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply IPSAS 46, *Measurement* in measuring assets and liabilities.

3. Except as specified in paragraph 4, this Standard applies when another IPSAS requires or permits:

    (a) One or more of the measurement bases defined in this Standard; and

    (b) Measurements that are based on one or more of the measurement bases (e.g., fair value less costs of disposal).

4. The measurement requirements of this Standard do not apply to the following:

    (a) Leasing transactions accounted for in accordance with IPSAS 43, *Leases*;[1]

    (b) Transactions accounted for in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*; and

    (c) Measurements that have some similarities to the measurement bases in this Standard but are not those measurement bases, such as net realizable value in IPSAS 12, *Inventories* or value in use in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets* (but this Standard is applied in measuring fair value as required in IPSAS 21 and 26).

5. The measurement requirements described in this Standard apply to both initial and subsequent measurement, unless specific guidance is included in the individual IPSAS.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

    Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

    Cost approach is a measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

    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.

    Current operational value is the amount the entity would pay for the remaining service potential of an asset at the measurement date.

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

    Entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

    Exit price is the price received to sell an asset or paid to transfer a liability.

[1] If this Standard is applied prior to IPSAS 43, *Leases*, the measurement requirements of this standard do not apply to IPSAS 13, *Leases*.

Expected cash flow is the probability-weighted average (i.e., mean of the distribution) of possible future cash flows.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Highest and best use is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.

Historical cost is the consideration given to acquire, construct, or develop an asset plus transaction costs, or the consideration received to assume a liability minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.

Income approach is a measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.

Inputs are the assumptions used when pricing the asset or liability, including assumptions about risk, such as the following:

(a) **The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and**

(b) **The risk inherent in the inputs to the measurement technique.**

Inputs may be observable or unobservable.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Market approach is a measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

(a) **They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, *Related Party Disclosures*, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.**

(b) **They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.**

(c) **They are able to enter into a transaction for the asset or liability.**

(d) **They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.**

Market-corroborated inputs are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Non-performance risk is the risk that an entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).

Principal market is the market with the greatest volume and level of activity for the asset or liability.

Risk premium is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.

Transaction costs are incremental costs that are directly attributable to the acquisition, construction, development or disposal of an asset, or incurrence of a liability, and would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset, or incurred the liability.

Transaction price is the consideration given to acquire, construct or develop an asset or received to assume a liability.

Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

Unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.

Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

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.

Measurement

Initial Measurement

7. **On the date an item qualifies for recognition, it shall be initially measured at its transaction price, plus transaction costs for assets or minus transaction costs for liabilities, unless:**

   (a) That transaction price, plus or minus transaction costs, does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (see paragraphs 10–13); or

   (b) Otherwise required or permitted by another IPSAS.

   When applying accrual basis IPSAS for the first time, initial measurement in an opening statement of financial position at the date of adoption of IPSAS should be carried out in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*.

Transactions in an Orderly Market

8. When an asset is acquired, constructed, or developed, or a liability is assumed in an orderly market, the transaction price, plus or minus transaction costs, reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.

9. Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, an entity shall consider factors specific to the transaction and to the asset or liability.

Transactions not Undertaken in an Orderly Market

10. When an asset is acquired, constructed, or developed, or a liability is assumed, as a result of an event that is not a transaction in an orderly market:

    (a) It may not be possible to observe a transaction price;

    (b) The transaction price may not faithfully present relevant information about the asset or liability; or

    (c) The transaction price may be zero.

    In such cases, deemed cost is used to measure the initial value of the asset or liability. A current value measurement basis is used to determine the deemed cost of the asset or liability on initial measurement. Current value measurement bases are described in paragraphs 23–31.

11. Any difference between deemed cost and any consideration given or received would be recognized as revenue or expenses, unless it is a contribution from owners or a relevant IPSAS requires otherwise.

12. Circumstances where a transaction price may not be observable or may not faithfully present relevant information include:

    (a) Transaction prices that have a concessionary element;

    (b) Assets transferred to the entity free of charge by a government or donated to the entity by another party;

    (c) Liabilities imposed by legislation or regulation;

    (d) Liabilities to pay compensation or a penalty arising from an act of wrongdoing or breach of contract;

    (e) Transaction prices that are affected by relationships between the parties, or by financial distress or other duress of one of the parties; and

    (f) Transaction prices that are not available on the date of adoption of IPSAS as defined in IPSAS 33.

13. When assets are acquired, constructed, or developed, or liabilities assumed, as a result of an event that is not a transaction in an orderly market, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognize other assets, other liabilities, contributions from owners or distributions to owners to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position and any related effect on the entity's financial performance.

Transaction Costs at Initial Measurement

14. Transaction costs related to acquiring, constructing, or developing, an asset or incurring a liability are a feature of the transaction in which the asset was acquired, constructed, or developed, or the liability was incurred. The initial measurement of the asset or liability reflects those transaction costs as the entity could not have acquired, constructed, or developed the asset or assumed the liability without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset or in settling or transferring a

liability are a feature of a possible future transaction. Unless explicitly required, possible transaction costs are not included because initial measurement reflects the costs of acquiring the asset or incurring the liability.

Transaction Occurring in Stages

15. The acquisition of an asset may occur in stages or may be followed by further expenditures to adapt the asset for the entity's own use. Any expenditures incurred in bringing the asset to the state where it is ready for use will be included in the consideration identified as part of the asset's initial measurement.

Deferred Payments

16. Where the time value of money is material—for example, where the length of time before settlement falls due is significant— the amount of the future cash flows is discounted so that, at the time an asset or liability is first recognized, it represents the value of the amount received or paid. For example, the difference between the amount of the future cash flows and the present value of the asset or liability is amortized over the life of the asset or liability, so that the asset or liability is stated at the amount due to be received, or the required payment when it falls due.

Subsequent Measurement

17. After initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure an asset or liability on an historical cost basis or a current value basis. This accounting policy choice is reflected through the selection of the measurement model.

Measurement Models

18. Assets and liabilities recognized in financial statements are quantified in historical terms or current terms. This requires the selection of an historical cost or current value measurement model. In selecting a measurement model, an entity shall consider the characteristics of the item, the measurement objective and the monetary information being presented.

Measurement Bases

19. A measurement basis provides information that achieves the qualitative characteristics, as described in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) and ensures the constraints on information in GPFRs are considered under the measurement model selected. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related revenue and expenses. The selection of a measurement basis depends on the measurement model applied (see diagram after paragraph 36).

20. **When another IPSAS establishes measurement requirements with reference to one or more of the measurement bases below, an entity shall apply the measurement basis in accordance with the requirements and related appendices in this Standard:**

    (a) **Historical cost basis (Appendix A: Historical cost);**

    (b) **Current operational value basis (Appendix B: Current operational value);**

    (c) **Cost of fulfillment basis (Appendix C: Cost of fulfillment); and**

    (d) **Fair value basis (Appendix D: Fair value).**

Historical Cost Basis

21. The historical cost basis is an entry, entity-specific value. The historical cost basis provides monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.

22. Following initial measurement, the value of an asset or liability is not remeasured to reflect current conditions or increases in the value of the asset or decreases in the value of the liability.

Current Operational Value Basis

23. Current operational value provides monetary information about assets, and related amortization, depreciation, etc., using information updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of assets since the previous measurement date. Similar to fair value and cost of fulfillment, current operational value is not dependent, even in part, on the transaction or event that gave rise to the asset.

24. In some cases, current operational value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly. For example, if prices are available for a similar asset, the current operational value of the entity's asset might need to be estimated by adjusting the current price of the similar asset to reflect the unique aspects of the entity's asset in its existing use and condition.

25. Current operational value differs from fair value because it:

    (a) Is explicitly an entry price and includes all the costs that would necessarily be paid for the remaining service potential of an asset;

    (b) Reflects the value of an asset in its existing use, rather than the asset's highest and best use (for example, a building used as a hospital is measured as a hospital); and

    (c) Is entity-specific and therefore reflects the economic position of the entity.

Cost of Fulfillment Basis

26. Cost of fulfillment is an exit, entity-specific cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Cost of fulfillment is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it fulfills a liability. Those amounts of cash or other economic resources include not only the amounts to be explicitly transferred, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfill the liability.

27. Cost of fulfillment cannot be observed directly and is determined using cash-flow-based measurement techniques. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would use and those an entity itself uses.

28. The cost of fulfillment reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.

Fair Value Basis

29. Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. The fair value of an asset or liability is not dependent, even in part, on the transaction or event that gave rise to the asset or liability.

30. Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.

31. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly.

Characteristics of the Asset or Liability

32. A measurement basis is applied to a particular asset or liability. Therefore, when applying the measurement basis, an entity shall take into account the characteristics of the asset or liability at the measurement date (for example, for fair value measurement the characteristics are considered if market participants would take those characteristics into account when pricing the asset or liability). Such characteristics include, for example, the following:

(a) The condition, use and location of the asset; and

(b) Restrictions, if any, on the sale or use of the asset.

33. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the entity, for entity-specific measurements, and by market participants, for market-based measurements.

34. The asset or liability measured might be either of the following:

(a) A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or

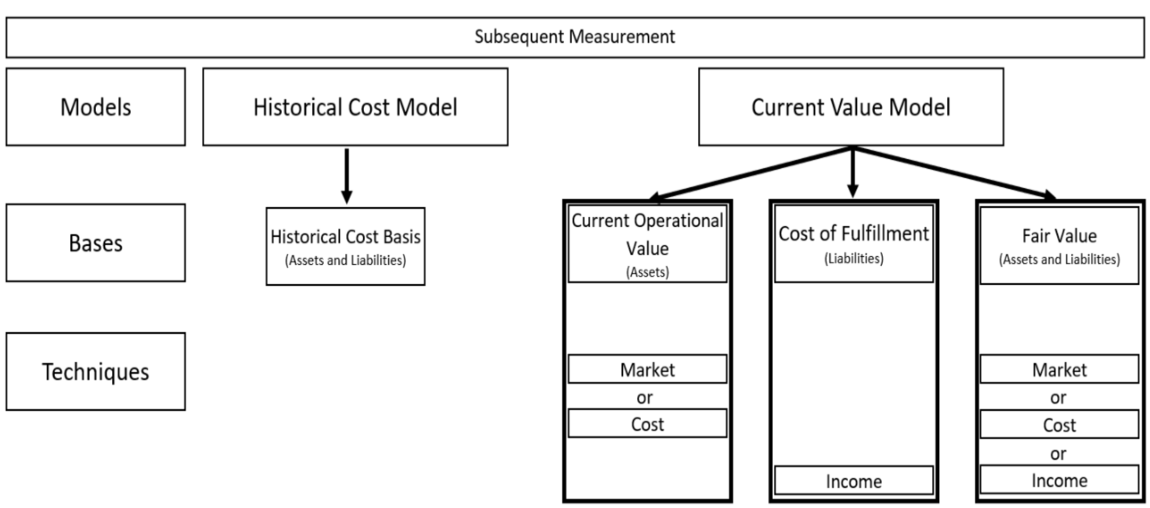
(b) A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).

35. Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes, depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the application of one or more measurement bases identified in this Standard, except where specified differently in this Standard.

Measurement Techniques

36. **An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to estimate the measurement basis or determine deemed cost.**

The following diagram sets out the subsequent measurement framework based on the *Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*. This diagram illustrates the three levels of measurement and the relationships between them.



37. A measurement technique is applied to estimate the amount at which an asset or liability is recognized under the selected measurement basis or in determining deemed cost (see paragraph 10). Such techniques are not measurement bases. When using such a technique, it is necessary for the technique to reflect the attributes applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable attributes are those described in paragraphs 29–31.

38. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 42–45. An entity shall use measurement techniques consistent with one or more of those approaches to measure the asset or liability under the selected measurement basis.

39. In some cases, a single measurement technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple measurement techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple measurement techniques are used to measure the asset or liability under the selected measurement basis, the results shall be evaluated considering the reasonableness of the range of values indicated by those results.

40. Measurement techniques shall be applied consistently. However, a change in a measurement technique or its application (e.g., a change in its weighting when multiple measurement techniques are used or a change in an adjustment applied to a measurement technique) is appropriate if the change results in a measurement that is equally or more representative of the measurement basis in the circumstances. That might be the case if, for example, any of the following events take place:

(a) New markets develop;

(b) New information becomes available;

(c) Information previously used is no longer available;

(d) Measurement techniques improve; or

(e) Market conditions change.

41. Revisions resulting from a change in the measurement technique or its application shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. However, the disclosures in IPSAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a measurement technique or its application.

Market Approach

42. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Cost Approach

43. The cost approach reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.

44. The cost of a substitute asset of comparable utility is calculated as the cost of a modern equivalent asset—that is, an asset providing an equivalent service as the existing asset.

Income Approach

45. The income approach converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the estimate of the measurement basis reflects current expectations about those future amounts.

Depreciation, Impairment and Other Adjustments

46. Depreciation and impairment are applicable to measurement bases in the historical cost model and the current value model. Neither depreciation nor impairment are measurement bases or measurement techniques in their own right. They are methods to reflect the consumption of the asset or loss of the future economic benefits or service potential of the asset.

47. Under both the historical cost model and the current value model, an asset is updated over time to depict:

(a) The consumption of part or all of the resource that constitutes the asset (depreciation or amortization);

(b) Payments received that extinguish part or all of the asset;

(c) The effect of events that cause part or all of the asset to no longer be recoverable (impairment); and

(d) Accrual of interest to reflect any financing component of the asset.

48. Under both the historical cost model and the current value model, a liability is updated over time to depict:

(a) Fulfillment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods or services;

(b) The effect of events that increase the value of the obligation to transfer the resources needed to fulfill the liability to such an extent that the liability becomes onerous. A liability is onerous if the carrying amount is no longer sufficient to depict the obligation to fulfill the liability; and

(c) Accrual of interest to reflect any financing component of the liability.

Transaction Costs in Subsequent Measurement

49. **Transaction costs are incremental costs that would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset or incurred, transferred, or settled the liability.**

50. Incremental costs are a direct result of the transaction. Transaction costs are an essential feature of the transaction, and they would not have been incurred had the transaction not occurred. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs, as they are not a direct result of the transaction.

51. Costs attributable to the acquisition, construction, or development, of an asset relate specifically to costs of transfer of control. Costs incurred prior to transfer (e.g., costs to negotiate the transaction), or costs incurred subsequent to the transfer (e.g., borrowing costs), are excluded from the definition of transaction costs.

52. Including transaction costs in the measurement of an asset or liability is dependent on the objective of measurement. Whether an entity is recognizing an asset or liability using an entry-based measurement basis or an exit-based measurement basis impacts whether those transaction costs are included in, or excluded from, the item's measurement.

53. Transaction costs can arise when an asset is acquired, constructed, or developed or a liability is assumed, when an asset is disposed of or a liability is settled or transferred. As transaction costs incurred in acquiring, constructing, or developing an asset or assuming a liability are a feature of the transaction in which the asset

was acquired, constructed or developed, or the lability was assumed, such transaction costs incurred in entering into a transaction are included in entry-based measurement bases. Transaction costs that would be incurred in disposing of an asset or in settling or transferring a liability are a future or a possible future transaction. As such, transaction costs that would be incurred in exiting a transaction are included in exit-based measurement bases when the measurement basis is entity-specific.

Disclosure

54. An entity shall disclose information that helps users of its financial statements assess the measurement basis, the measurement techniques and inputs used to develop those measurements.

55. To meet the objectives in paragraph 54, an entity shall apply the measurement disclosure requirements in the relevant IPSAS to which the measurement of the asset or liability applies.

Effective Date and Transition

Effective Date

56. **An entity shall apply this Standard for annual periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies this Standard earlier, it must disclose that fact.**

57. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33 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 accrual basis IPSAS.

Transition

58. This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Appendix A

Historical Cost

This Appendix is an integral part of IPSAS 46.

Measurement

A1. The objective of the historical cost measurement basis is to provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction (or deemed cost, where applicable) or other event that gave rise to them.

A2. The historical cost basis is:

(a) The consideration given to acquire, construct and/or develop an asset plus transaction costs;

(b) The consideration received to assume a liability minus transaction costs; or

(c) The deemed cost of the asset or liability or other event that gave rise to it.

The consideration is the cash or cash equivalents or the value of the other consideration given or received at the time, or period over which, the asset is acquired, constructed, or developed or the liability is assumed.

Initial Measurement

A3. Initial measurement is determined in accordance with paragraphs 7–16 of this Standard.

Subsequent Measurement

A4. After initial measurement, the gross carrying amount of an asset or liability measured using the historical cost basis remains unaffected by changes in the underlying current market conditions, unless those changes trigger an impairment. For example, the amount at which an item of property, plant, and equipment is recorded is not updated to reflect an increase in the current market price of the item after it has been acquired, constructed, or developed.

A5. However, as with current value measurements, the carrying amount of an asset or liability measured using the historical cost basis is updated to reflect changes to the item as noted in paragraphs 47 and 48.

Amortized Cost

A6. The historical cost basis is applied to financial instruments by measuring the instruments at amortized cost. Amortized cost reflects estimates of future cash flows, discounted at a rate determined at initial measurement. The amortized cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset or payments.

Appendix B

Current Operational Value

This Appendix is an integral part of IPSAS 46.

Measurement

B1. The objective of a current operational value measurement is to estimate the amount an entity would pay for a non-financial asset at the measurement date. A current operational value measurement requires an entity to determine all of the following:

(a) The amount the entity would pay. This includes assessing the price that would be paid in an active market, or the cost the entity would incur, for the asset in the least costly manner.

(b) The remaining service potential of the asset. This considers the current condition of the asset.

(c) The asset (consistent with its unit of account). This includes assessing the asset's existing use and location.

(d) The measurement technique(s) appropriate for estimating (a) to (c) considering the availability of data that faithfully represents the assumptions that are specific to the entity.

B2. Current operational value provides an entity specific measurement of an asset held for its operational capacity in its existing use, location, and current condition.

(a) In the statement of financial position, current operational value reflects the amount an entity would pay at the measurement date for the remaining service potential of its existing asset.

(b) In the statement of financial performance, current operational value reflects the consumption of the asset in providing the service based on conditions at the measurement date. This differs from the historical cost basis which reflects consumption of the asset based on the prices when the asset was acquired, constructed, or developed, and initially recognized.

The Amount an Entity would Pay

B3. Current operational value is the amount that an entity would pay for the remaining service potential of an asset in the least costly manner based on conditions at the measurement date regardless of whether that price is directly observable or not.

B4. The amount an entity would pay is:

(a) The price to acquire the identical, or a similar, asset in an active market; or

(b) The costs that would be incurred to develop or produce the identical, or a similar, asset.

B5. When an active market exists for the identical, or a similar, asset, current operational value uses this price as the amount an entity would pay for the asset.

B6. When no active market exists, a reliable acquisition price for an identical, or similar, asset will generally not exist. Current operational value will then need to be estimated based on the costs to develop or produce the asset using available price information. For example, many military assets, such as an aircraft, generally do not have active markets. Such assets often cannot be acquired as a finished product that is identical, or similar, to the aircraft under valuation. Measuring the cost of each part of the asset, such as the fuselage, engine, electronics etc., and the cost to assemble them into the same, or similar, aircraft, adjusted for the age, functionality, and condition, will generally be necessary to estimate the aircraft's current operational value.

Entry Price

B7. The current operational value of an asset represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.

Entity-Specific Value

B8. An entity shall measure the current operational value of an asset using assumptions from the entity's perspective, based on the way the existing asset is used. Those assumptions shall reflect the economic, legal and other constraints that affect the possible uses of the asset. For example, where an entity is using an asset for a particular purpose, the entity will consider the amount it would pay for that type of asset based on its existing use and not consider the value for alternative uses for that asset.

The Least Costly Manner

B9. A current operational value measure assumes the amount an entity would pay for the remaining service potential of an asset at the measurement date is the least costly amount for the asset.

B10. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly amount, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.

B11. Current operational value does not reflect the costs that might be incurred if an urgent necessity to replace the remaining service potential of an asset arose as a result of some unforeseeable event.

Observable Inputs

B12. For some assets, observable market transactions or market information might be available. For other assets, observable market transactions and market information might not be available. However, the objective of a current operational value in both cases is the same—to estimate the amount the entity would pay for the remaining service potential of the asset based on conditions at the measurement date (i.e., an *entry price* at the measurement date from the perspective of the entity that holds the asset).

B13. When a price for an identical, or similar, asset is not observable, an entity measures current operational value using another valuation technique that uses observable inputs, where feasible, such as when external resources are available and can be used.

B14. Because current operational value is an entity-specific value, it is measured using the assumptions from the entity's perspective. These entity-specific assumptions may result from information that is not available publicly. For example, the cost to construct an asset may include labor costs of employees of the entity, as opposed to contract workers. As a result, an entity's intention in how costs are incurred to construct an asset is relevant when measuring current operational value.

B15. In practice, there may be little difference between the assumptions that market participants would use and those that an entity itself uses. For example, where the amount that would be paid for a non-specialized asset is generally the same regardless of its existing use, the assumptions a market participant would use would be consistent with those in an entity-specific valuation.

Remaining Service Potential

B16. Current operational value is the amount the entity would pay for the remaining service potential of an asset. The remaining service potential of the asset takes into account the current age, functionality, and condition of the asset held by the entity.

B17. In order to reflect the current age, functionality, and condition, the following factors are considered:

(a) Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use.

(b) Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent.

(c) Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity.

The Asset

B18. Current operational value is the amount the entity would pay for the remaining service potential of a specific asset. The following key aspects affect the measurement of an asset's current operational value:

(a) The existing asset;

(b) The existing use of the asset; and

(c) The existing location of the asset.

Existing Asset

B19. Current operational value assumes the entity will continue to deliver goods and/or services by using the identical, or a similar, asset.

B20. The identical, or a similar, asset delivers goods and/or services in the same manner as the asset being measured. For example, a power authority that delivers electricity measures the amount it would pay for the remaining service potential of its generation facilities based on the nature of its existing facilities. If the generation facilities are solar farms, the amount an entity would pay for the remaining service potential of the asset is based on a solar farm as opposed to an alternative asset, such as a wind farm, that could also deliver the service.

Existing Use of the Asset

B21. Current operational value is the amount the entity would pay for the remaining service potential of an asset based on its existing use. 'Existing use' is the way an asset, or group of assets, is used and generally reflects the policy objectives of the entity operating the asset. For example, a ministry of health is responsible for the wellbeing of citizens. Assets such as buildings are used as hospitals to deliver health care services rather than for commercial purposes.

B22. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, the existing use of a building operated as a school, is for the delivery of educational services. Alternative uses, such as the operation of the building as an office block held for rental at market rates are not considered. The existing use may be, but is not necessarily, the highest and best use.

B23. Any unused portion of the asset in its existing use is evaluated to determine whether the unused portion is held for a specific operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, and/or functional limitations. Unused portions based on the existing use of the asset, which are held for a specific operational purpose associated with the asset and would be replaced, are included in measuring the asset's current operational value.

B24. Where an unused portion of an asset has no specific operational purpose associated with the asset, an entity determines whether it has an alternative use. Where an alternative use is currently available, the portion of the asset is valued as a separate asset using an appropriate measurement basis. Where the unused portion of an asset has no alternative use, it is included in the current operational value, but has no value.

Existing Location of the Asset

B25. The asset's current operational value assumes that the entity will continue to deliver goods and/or services from the same location in which the asset is currently situated or used.

B26. The current operational value of an asset that cannot be physically moved reflects the value of the physically immovable asset in its existing location. For example, a hospital operating in a city center that could be situated in the suburbs, due to the migration of the population, is measured based on the amount an entity would pay for the hospital at its existing location (e.g., the amount required for a building includes construction costs, permits, regulations, etc. based on costs that would be paid at the existing location).

B27. The current operational value of a physically movable asset reflects the location from which the entity uses the asset and/or the market the entity has access to. For example, the furniture and equipment in a hospital operating in a city center is measured based on the amount an entity would pay for furniture and equipment for the hospital at its current city center location.

Measurement Techniques

B28. The objective of using a measurement technique is to estimate the amount an entity would pay for the remaining service potential of an asset based on conditions at the measurement date. The widely used measurement techniques are the market approach and the cost approach. The main aspects of those approaches are summarized in paragraphs B32–B36. An entity shall use measurement techniques consistent with one or other of those approaches to measure the current operational value.

B29. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, using observable inputs, where feasible.

B30. In some cases, current operational value cannot be determined directly by observing prices in an active market and must be determined by other means. For example, if prices are available only for new assets, the current operational value of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age, functionality, and condition of the asset held by the entity.

B31. If multiple measurement techniques are used to measure current operational value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current operational value measurement is the point within that range that is the most representative value of the remaining service potential of the asset in the circumstances.

Market Approach

B32. Applying the market approach to measure the current operational value of an asset requires the existence of an active market with transactions involving identical or similar assets.

B33. The market approach uses an asset price from an orderly transaction in the principal market (or the market that minimizes the amount that would be paid to acquire the asset) for the entity at the measurement date.

B34. Identical or similar assets include the same characteristics as the asset being measured. When measuring the current operational value of an asset using the market approach an asset with an identical or similar remaining useful life, service potential, etc. must be identified.

Cost Approach

B35. The current operational value of an asset should be established using the cost approach when no active market for similar or identical assets exists. The more specialized the asset, the less likely an active market exists and the more likely the cost approach will need to be applied.

B36. When the existence of market transactions involving identical or similar assets does not exist, current operational value is the cost to develop or produce the identical, or a similar, asset.

Modern Equivalent Asset

B37. When no cost information is available for a similar or identical asset, or when the existing asset would not be replaced with an identical asset, an entity may estimate current operational value by calculating the cost of a modern equivalent asset and then making deductions for obsolescence and optimization. It may be necessary, therefore, to estimate the current operational value of an asset by drawing on the current price of a modern equivalent asset that provides an equivalent service as the existing asset in its existing use, adjusted to reflect the current age, condition and functionality of the asset held by the entity.

B38. Applying the cost approach means current operational value cannot be determined by observing prices in an active market. However, measuring the current operational value using the cost approach continues to require the use of relevant observable inputs for parts of the asset, where the entity would acquire those parts from the market.

Appendix C

Cost of Fulfillment

This Appendix is an integral part of IPSAS 46.

Measurement

C1. The objective of the cost of fulfillment measurement is to estimate the value of a liability assuming the entity will fulfill the liability in the least costly manner. A cost of fulfillment measurement requires an entity to determine all the following:

(a) The particular liability that is the subject of the measurement (consistently with its unit of account).

(b) The manner in which the liability will be settled.

The Least Costly Manner

C2. The cost of fulfillment assumes that the liability is settled by the entity in the least costly manner.

C3. The cost of fulfillment represents the amount the entity is obligated to incur to settle the liability. This liability represents the minimum amount an entity will incur assuming the entity completely satisfies the liability. For example, an entity may have a liability to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfill the minimum liability of restoring the land to its original condition and therefore are not representative of the cost to fulfill the liability. In cases where an entity intends to fulfill the liability beyond its commitment, guidance in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, should be applied when accounting for an amount in excess of the cost to fulfill.

C4. The entity must have the ability to access the fulfillment method that results in the liability being settled in the least costly manner at the expected fulfillment date. Because different entities (and operations within those entities) with different activities may have access to a variety of fulfillment methods, the least costly manner for the same liability might be different for different entities (and operations within those entities). Therefore, the least costly manner shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities and circumstances.

C5. An entity need not undertake an exhaustive search of all fulfillment methods to identify the least costly manner of fulfillment, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the least costly manner of fulfillment is presumed to be the manner in which the entity has currently selected to release itself from the liability. For example, if an entity elects to fulfill its decommissioning liability using its own employees, it is presumed this is the least costly manner of fulfillment, regardless of the entity's ability to contract the decommissioning to third parties.

C6. 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 means of fulfilling the liability and the entity has the ability to access the fulfillment method (see paragraph C4).

C7. Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any margin above costs, because any such margin above costs does not represent a use of the entity's resources. Where the cost of fulfillment amount 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.

Entity-Specific Value

C8. The cost of fulfillment is an entity-specific value. An entity shall measure the cost of fulfillment of a liability using the assumptions from the entity's perspective, assuming the entity acts in accordance with its objectives.

C9. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability, considering factors specific to all the following:

(a) The liability;

(b) The entity's expectations about the amount and timing of future outflows of resources; and

(c) The time value of money.

Whether a risk premium is included in the calculation will depend on guidance in the relevant IPSAS.[2]

C10. When estimating assumptions, such as the time value of money, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.

The Cost that the Entity Will Incur

C11. The cost of fulfillment estimates the cost assuming the entity settles the liability.

C12. A cost of fulfillment measurement, both at initial and subsequent measurement, should only incorporate the future outflows of resources the entity expects to incur to satisfy the liability. Those future outflows of resources include the amounts:

(a) To be transferred to the liability counterparty; and

(b) The entity expects to be obliged to transfer to other parties to settle the liability.

C13. The price used to measure the cost of fulfilling the liability shall not be adjusted for transaction costs incurred to enter into the transaction. Entry-based transaction costs have no impact on the future outflows of resources the entity expects to incur. In contrast, transaction costs that are expected to be incurred in settling the liability, i.e., exit-based, are a future outflow of resources that is relevant in measuring the cost to fulfill the liability and are included in measuring the cost of fulfillment.

C14. Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.

C15. Where fulfillment of the liability 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 using the income approach. As a practical expedient, an entity need not discount the value of the future outflow of resources if the entity expects the liability to be settled within one year.

Settling the Liability

C16. The cost of fulfillment is the cost that the entity expects to incur to settle its liability in the normal course of operations.

C17. In estimating the cost to settle its liability in the normal course of operations, the entity assumes the liability will be fulfilled under the existing terms of the arrangement and that the liability will not be transferred to a third party.

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[2] When including a risk premium in measuring cost of fulfillment, an entity should perform the measurement from the perspective of the entity holding the liability rather than from the perspective of the market participant as noted in paragraph D8.

C18. In estimating the cost of fulfillment the entity takes into account all readily available information at the measurement date under current market conditions in estimating the obligation to settle the liability at the expected fulfillment date.

C19. The cost of fulfillment shall not include the non-performance risk of the entity to settle its liability. A cost of fulfillment measurement is a measure of the value of a liability assuming the entity will fulfill its obligations. As non-performance risk takes into account the effect on the value of a liability of the entity potentially not meeting its obligations, it is inconsistent to include in the measure of a liability the possibility that it may not meet its obligations when the cost of fulfillment measurement assumes the liability will be fulfilled in the normal course of operations.

Measurement Technique

C20. The cost of fulfilment, cannot be observed directly in an active market. It is determined using the income approach measurement technique.

C21. An entity shall use the income approach. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.

C22. The objective of using the income approach is to estimate the cost that the entity will incur in fulfilling the obligations represented by the liability at the measurement date under current market conditions. The main aspects of that approach as it relates to the cost of fulfillment are summarized in paragraphs C23–C48.

Income Approach

C23. Applying the income approach to estimate the cost of fulfillment shall take into account the attributes of the cost of fulfillment measurement basis. This includes:

(a) Estimates of future cash flows.

(b) Possible variations in the estimated amount or timing of future cash flows for liability being measured, caused by the uncertainty inherent in the cash flows.

(c) The time value of money.

(d) Other factors that impact the value of the liability.

C24. Paragraphs C25–C48 describe the use of present value techniques to measure the cost of fulfillment. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the cost of fulfillment to the techniques discussed. The present value technique used to measure the cost of fulfillment will depend on facts and circumstances specific to the liability being measured and the availability of sufficient data.

Future Outflows of Resources

C25. The estimates of outflows of resources used to measure the cost of fulfillment shall include all inflows of resources and outflows of resources that relate directly to the fulfillment of the liability. Those estimates shall:

(a) Be explicit (i.e., the entity shall estimate those outflows of resources separately from the estimates of discount rates that adjust those future outflows of resources for the time value of money and the risk adjustment that adjusts those future outflows of resources for the effects of uncertainty about the amount and timing of those outflows of resources);

(b) Reflect the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables (see paragraphs C30–C34);

(c) Incorporate, in an unbiased way, all of the available information about the amount, timing and uncertainty of all of the inflows of resources and outflows of resources that are expected to arise as the entity fulfills the liability (see paragraph C35); and

(d) Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs C36–C40).

Uncertainty and the Expected Value Approach

C26. The expected present value technique uses as a starting point a set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources (i.e., the expected outflows of resources). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible outflows of resources are probability-weighted, the resulting expected outflows of resources are not conditional upon the occurrence of any specified event (unlike the outflows of resources used in the discount rate adjustment technique).

C27. In determining the expected outflows of resources an entity must:

(a) Identify each possible outcome;

(b) Make an unbiased estimate of the amount and timing of the future outflows of resources for each outcome; and

(c) Make an unbiased estimate of the probability of each outcome.

C28. Paragraph C27 requires the estimate of expected values to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the identification of scenarios that specify the amount and timing of the outflows of resources for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected outflows of resources shall reflect at least two outcomes.

C29. In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph C2 assumes that the liability is settled by the entity in the least costly manner. Each outflow represents one possible scenario where the liability is settled in the least costly manner.

Market Variables and Non-Market Variables (Paragraph C25(b))

C30. This Appendix identifies two types of variables:

(a) Market variables—variables that can be observed in, or derived directly from, markets (e.g., interest rates); and

(b) Non-market variables—all other variables (e.g., the frequency and severity of natural disasters impacting decommissioning liabilities).

Market Variables

C31. Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall not substitute its own estimates for observed market prices except as described in paragraph D59. In accordance with Appendix D, if market variables need to be estimated (e.g., because no observable market variables exist), they shall be as consistent as possible with observable market variables.

Non-Market Variables

C32. Estimates of non-market variables shall reflect all of the available evidence, both external and internal.

C33. Non-market external data (e.g., national statistics for decommissioning of a nuclear power facility) may have more or less relevance than internal data (e.g., internally developed statistics for decommissioning of a nuclear power facility), depending on the circumstances.

C34. Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

Estimating Probabilities of Future Payments (Paragraph C25(c))

C35. An entity estimates the probabilities associated with future payments on the basis of:

(a) Information about the known or estimated characteristics of the liability; and

(b) Historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted if, for example:

(i) The characteristics of the liability differ (or will differ, for example because of adverse selection) from those of the population that has been used as a basis for the historical data;

(ii) There is evidence that historical trends will not continue, that new trends will emerge or that economic or other changes may affect the outflow of resources that arise from the existing liability; or

(iii) There have been changes in the entity's practices or procedures that may affect the relevance of historical data to the liability.

Under Current Estimates (Paragraph C25(d))

C36. In estimating the probability of each outflow of resources scenario, an entity shall use all of the available current information at the measurement date. An entity shall review the estimates of the probabilities that it made at the end of the previous measurement date and update them for any changes. In doing so, an entity shall consider whether:

(a) The updated estimates faithfully represent the conditions at the end of the measurement date; and

(b) The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, changing the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the whole period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities that are assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all of the new available evidence, giving more weight to the more persuasive evidence.

C37. The probability assigned to each scenario shall reflect the conditions at the measurement date. Consequently, in accordance with IPSAS 14, Events After the Reporting Date, an event that occurs after the end of the reporting period and resolves a condition that existed at the reporting date does not provide evidence of a condition that existed at the end of the reporting period. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike prior to a facility being decommissioned that would increase the cost of decommission. After the end of the reporting period and before the financial statements are authorized for issue, a storm strikes. The outflow of resources under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the outflow of resources that were included in the measurement are multiplied by the 20 per cent probability that was apparent at the end of the reporting period (with appropriate disclosure, in accordance with IPSAS 14, that a non-adjusting event occurred after the end of the reporting period).

Future Events (Paragraph C25(d))

C38. Estimates of non-market variables shall consider not just current information about the liabilities but also information about trends. For example, technology has consistently improved over long periods thereby decreasing decommissioning costs. The determination of the outflow of resources reflects the probabilities that would be assigned to each possible trend scenario in the light of all the available evidence.

C39. Similarly, if the outflow of resources associated with fulfilling the liability are sensitive to inflation, the determination of the outflow of resources shall reflect possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of the outflow of resources reflects the probabilities for each inflation scenario in a way that is consistent with the probabilities that are implied by market interest rates.

C40. When estimating the outflow of resources associated with fulfilling the liability, an entity shall take into account future events that might affect the outflow of resources. The entity shall develop scenarios that reflect those future events, as well as unbiased estimates of the probability weights for each scenario. However, an entity shall not take into account future events, such as a change in legislation, that would change or discharge the present obligation or create new obligations under the existing liability.

Time Value of Money

C41. Entities are not indifferent to the timing of an outflow of resources. Accordingly, the timing of the future outflows of resources is a characteristic of a liability and needs to be encompassed in any measurement of a liability's current value. Failure to reflect the time value of money would mean that the resulting measurement would not be a faithful representation of the economic burden the liability represents.

C42. An entity shall determine the estimated outflows of resources by adjusting the estimates of future outflows of resources for the time value of money, using discount rates that reflect the characteristics of the liability. Such rates shall:

(a) Be consistent with observable current market prices for instruments with outflows of resources whose characteristics are consistent with those of the liability's outflows of resources, in terms of, for example, timing, currency and liquidity.

(b) Exclude the effect of any factors that influence the observable market prices but that are not relevant to the outflows of resources of the liability.

C43. When using a risk-free rate, the logical sources of reference rates are high quality bonds, for example, bonds issued by a financially sound government. These instruments should include no or insignificant default risk. They will also typically have a range of maturity dates or durations to match the liability durations. In the event that long-dated bonds are unavailable for liabilities with long durations, such as some decommissioning liabilities, it would be necessary to use extrapolation techniques to estimate the rates.

C44. Although rates on high quality government bonds will not need to be adjusted for default risk in determining the risk-free discount rate, they may need to be adjusted for liquidity risk. Some government bonds are traded in deep and liquid markets enabling bond holders to readily sell them at minimal cost. The rate payable on such bonds is lower than the rate payable on an equivalent illiquid bond. Accordingly, it might be necessary to include a 'premium for illiquidity' in the observed rate for government bonds that are not traded in deep and liquid markets.

Inputs to the Income Approach

General Principles

C45. The income approach used in a cost of fulfillment measurement reflects entity-specific assumptions rather than assumptions used by market participants.

C46. The cost of fulfillment measurement is an entity-specific valuation. When an income approach is applied, an entity shall select inputs that are consistent with the characteristics of the liability (see paragraph C10). The technique should maximize the use of observable inputs that are available to a market participant that is making the same valuation as the entity, from the entity's perspective. For example, when measuring the cost to fulfill a decommissioning liability where payments are due in 50 years, an observable market input when discounting the outflow of resources is the government bond rate applicable to the entity.

C47. In some cases, the characteristics of a liability may result in the application of an adjustment (e.g., there is no corresponding bond rate to discount an outflow of resources due in 3.5 years). However, a cost of fulfillment measurement shall not incorporate an adjustment that is inconsistent with the unit of account in the IPSAS that requires or permits the cost of fulfillment measurement.

C48. When a liability will be settled at a future date, the assumptions applied in developing and identifying inputs are based on current market conditions. For example, a decommissioning liability may be expected to settle in 50 years. The payment due on fulfillment and the associated discount rate are both based on information available at the measurement date.

Appendix D

Fair Value

This Appendix is an integral part of IPSAS 46.

Measurement

D1. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:

(a) The particular asset or liability that is the subject of the measurement (consistently with its unit of account);

(b) For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use);

(c) The principal (or most advantageous) market for the asset or liability; and

(d) The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

The Transaction

D2. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

D3. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability; or

(b) In the absence of a principal market, in the most advantageous market for the asset or liability.

D4. An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

D5. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another measurement technique), even if the price in a different market is potentially more advantageous at the measurement date.

D6. The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and operations within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and operations within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.

D7. Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.

D8. Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.

Market Participants

D9. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

D10. In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following:

(a) The asset or liability;

(b) The principal (or most advantageous) market for the asset or liability; and

(c) Market participants with whom the entity would enter into a transaction in that market.

The Price

D11. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another measurement technique.

D12. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other IPSAS. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.

D13. Transaction costs do not include transport costs. If location is a characteristic of the asset (as might be the case, e.g., for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.

Application to non-financial assets

Highest and Best Use for Non-Financial Assets

D14. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

D15. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g., the location or size of a property).

(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property).

(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate revenue or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

D16. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.

D17. To protect the public interest, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset, such as a drug patent, that the entity plans to use to manufacture vaccines for its citizens. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

Valuation Premise for Non-Financial Assets

D18. The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:

(a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation).

(i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (i.e., its complementary assets and the associated liabilities) would be available to market participants.

(ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.

(iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.

(b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

D19. The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IPSAS (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.

D20. When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation), the effect of the valuation premise depends on the circumstances. For example:

(a) The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an operation that market participants would continue to operate. In that case, the transaction would involve valuing the operation in its entirety. The use of the assets as a group in an ongoing operation would generate synergies that would be available to market participants (i.e., market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).

(b) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).

(c) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialized machinery necessary to convert the inventory into finished goods.

(d) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the measurement technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that measurement technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.

(e) In more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (i.e., an asset group) is allocated to its component assets (such as land and improvements).

Fair Value at Initial Recognition

D21. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

D22. In many cases the transaction price will equal the fair value (e.g., that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).

D23. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph D25 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.

D24. If another IPSAS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.

D25. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

(a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

(b) The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.

(c) The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g., in a public sector combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IPSAS, or the transaction price includes transaction costs.

(d) The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.

(e) The transaction takes place to achieve a specific social policy objective (e.g., issuing concessionary loans or financial guarantees where no, or a nominal fee, is charged).

Measurement Techniques

D26. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.

D27. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

D28. The objective of using a measurement technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs D31–D36. An entity shall use measurement techniques consistent with one or more of those approaches to measure fair value.

D29. If multiple measurement techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

D30. If the transaction price is fair value at initial recognition and a measurement technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the measurement technique shall be calibrated so that at initial recognition the result of the measurement technique equals the transaction price. Calibration ensures that the measurement technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the measurement technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the measurement technique). After initial recognition, when measuring fair value using a measurement technique or techniques that use unobservable inputs, an entity shall ensure that those measurement techniques reflect observable market data (e.g., the price for a similar asset or liability) at the measurement date.

Market Approach

D31. Measurement techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgment, considering qualitative and quantitative factors specific to the measurement.

D32. Measurement techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

Cost Approach

D33. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Market Participant

D34. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

Income Approach

D35. When estimating fair value, the income approach can be applied using several methods. Those methods include, for example, the following:

(a) Present value techniques (see paragraph D36);

(b) Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and

(c) The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

Present Value Techniques

D36. Paragraphs D37–D54 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

The Components of a Present Value Measurement

D37. Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:

(a) An estimate of future cash flows for the asset or liability being measured.

(b) Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.

(c) The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate).

(d) The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium).

(e) Other factors that market participants would take into account in the circumstances.

(f) For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk.

General Principles

D38. Present value techniques differ in how they capture the elements in paragraph D37. However, all the following general principles govern the application of any present value technique used to measure fair value:

(a) Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.

(b) Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.

(c) To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.

(d) Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.

(e) Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Risk and Uncertainty

D39. A measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.

D40. Market participants generally seek compensation (i.e., a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.

D41. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:

(a) The discount rate adjustment technique (see paragraphs D42–D46) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.

(b) Method 1 of the expected present value technique (see paragraph D49) uses risk-adjusted expected cash flows and a risk-free rate.

(c) Method 2 of the expected present value technique (see paragraph D50) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

Discount Rate Adjustment Technique

D42. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).

D43. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a 'build-up' approach).

D44. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

(a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent [(CU1,200/CU1,083) – 1].

(b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent [(CU700/CU566)^0.5 – 1].

(c) All three assets are comparable with respect to risk (i.e., dispersion of possible pay-offs and credit).

D45. On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the value of Asset A is CU722 (CU800/1.108). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.

D46. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

Expected Present Value Technique

D47. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable’s possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).

D48. In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:

(a) Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.

(b) Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.

Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

D49. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (i.e., the CU200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.

D50. In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

D51. To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.

Possible cash flows	**Probability**	**Probability-weighted cash flows**
CU500	15%	CU75
CU800	60%	CU480
CU900	25%	CU225
Expected cash flows		CU780

D52. In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.

D53. In theory, the present value of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:

(a) Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent (CU780 – [CU780 × (1.05/1.08)]), which results in risk-adjusted expected cash flows of CU758 (CU780 – CU22). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (i.e., the fair value) of the asset is CU722 (CU758/1.05).

(b) Using Method 2, the expected cash flows are not adjusted for systematic (i.e., market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value of the asset is CU722 (CU780/1.08).

D54. When using an expected present value technique, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgments applied.

Inputs to Measurement Techniques

General Principles

D55. Measurement techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

D56. Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include the following:

(a) Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange.

(b) Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (e.g., used equipment).

(c) Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.

(d) Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.

D57. An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 32 and 33). In some cases, those characteristics result in the application of an adjustment, such as a premium or discount (e.g., a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IPSAS that requires or permits the fair value measurement (see paragraphs 34 and 35). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph D66) rather than as a characteristic of the asset or liability (e.g., a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e., a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph D65.

Fair Value Hierarchy

D58. To increase consistency and comparability in fair value measurements and related disclosures, this Appendix establishes a fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value (see paragraphs D62–D89). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

D59. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs of disposal, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.

D60. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate measurement techniques (see paragraph D27). However, the fair value hierarchy prioritizes the inputs to measurement techniques, not the measurement techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.

D61. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy.

Level 1 Inputs

D62. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

D63. A quoted price in an active market provides the most faithfully representative evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph D65.

D64. A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g., on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

(a) The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.

D65. An entity shall not make an adjustment to a Level 1 input except in the following circumstances:

(a) When an entity holds a large number of similar (but not identical) assets or liabilities (e.g., debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e., given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g., matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy.

(b) When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy.

(c) When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph AG143F of IPSAS 41). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.

D66. If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 Inputs

D67. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

D68. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) Quoted prices for similar assets or liabilities in active markets.

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) Inputs other than quoted prices that are observable for the asset or liability, for example:

(i) Interest rates and yield curves observable at commonly quoted intervals;

(ii) Implied volatilities; and

(iii) Credit spreads.

(d) Market-corroborated inputs.

D69. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:

(a) The condition or location of the asset;

(b) The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph AG143F of IPSAS 41); and

(c) The volume or level of activity in the markets within which the inputs are observed.

D70. An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

D71. Paragraph D72 describes the use of Level 2 inputs for particular assets and liabilities.

D72. Examples of Level 2 inputs for particular assets and liabilities include the following:

(a) Licensing arrangement. For a licensing arrangement that is acquired in a public sector combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.

(b) Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a public sector combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (i.e., similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.

(c) Building held and used. A Level 2 input would be the price per square meter for the building (a valuation multiple) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) buildings in similar locations.

(d) Cash-generating unit. A Level 2 input would be a valuation multiple (e.g., a multiple of earnings or revenue or a similar performance measure) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) operations, taking into account operational, market, financial and non-financial factors.

Level 3 Inputs

D73. Level 3 inputs are unobservable inputs for the asset or liability.

D74. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

D75. Assumptions about risk include the risk inherent in a particular measurement technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the measurement technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g., when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs D76–D86).

Measuring Fair Value when the Volume or Level of Activity for an Asset or a Liability has Significantly Decreased

D76. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:

(a) There are few recent transactions.

(b) Price quotations are not developed using current information.

(c) Price quotations vary substantially either over time or among market-makers (e.g., some brokered markets).

(d) Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.

(e) There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.

(f) There is a wide bid-ask spread or significant increase in the bid-ask spread.

(g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (i.e., a primary market) for the asset or liability or similar assets or liabilities.

(h) Little information is publicly available (e.g., for transactions that take place in a principal-to-principal market).

D77. If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (e.g., there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (e.g., when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).

D78. This Appendix does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs D26–D29 and D31–D40 for a discussion of the use of measurement techniques when measuring fair value. Regardless of the measurement technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph D48). Otherwise, the measurement does not faithfully represent fair value. In some cases, determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.

D79. If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in measurement technique or the use of multiple measurement techniques may be appropriate (e.g., the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple measurement techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.

D80. Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.

D81. Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgment. An entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

Identifying Transactions that are not Orderly

D82. The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (i.e., forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:

(a) There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.

(b) There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.

(c) The seller is in or near bankruptcy or receivership (i.e., the seller is distressed).

(d) The seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced).

(e) The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.

D83. An entity shall consider all the following when measuring fair value or estimating market risk premiums:

(a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.

(b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:

(i) The volume of the transaction.

(ii) The comparability of the transaction to the asset or liability being measured.

(iii) The proximity of the transaction to the measurement date.

(c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (i.e., the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

Using Quoted Prices Provided by Third Parties

D84. This Appendix does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this Appendix.

D85. If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a measurement technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.

D86. Furthermore, the nature of a quote (e.g., whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.

Level 3 Inputs

D87. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (e.g., an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

D88. Paragraph D89 describes the use of Level 3 inputs for particular assets and liabilities.

D89. Examples of Level 3 inputs for particular assets and liabilities include the following:

(a) Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.

(b) Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, i.e., the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.

(c) Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.

(d) Decommissioning liability assumed in a public sector combination. A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfill the liability (including market participants' expectations about the costs of fulfilling the liability and the compensation that a market participant would require for taking on the liability to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, e.g., a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.

(e) Cash-generating unit. A Level 3 input would be a financial forecast (e.g., of cash) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

Appendix E

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 133, 134, 141, and 143 are amended. Paragraph 153P is added. New text is underlined and deleted text is struck through.

…

Structure and Content

…

Notes

…

Disclosure of Accounting Policies

…

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 cost, net realizable value,~~ current operational value, cost of fulfillment, or fair value~~recoverable amount, or recoverable service amount~~), 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 ~~fair value~~ 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 17 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.

…

Key Sources of Estimation Uncertainty

…

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 ~~recently observed market prices~~ 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.

…

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 ~~recently observed market prices~~ a quoted price in an active market for an identical asset or liability. ~~(their~~ 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~~)~~.

…

Effective Date

…

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.**

…

Amendments to IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors

Paragraph 57 is amended. Paragraph 59F is added. New text is underlined and deleted text is struck through.

…

Impracticability in Respect of Retrospective Application and Retrospective Restatement

…

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., ~~an estimate of~~ a fair value measurement that uses significant unobservable ~~not based on an observable price or observable~~ 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.

…

Effective Date

…

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.**

…

Amendments to IPSAS 4, The Effects of Changes in Foreign Exchange Rates

Paragraphs 27 and A5 are amended. Paragraph 71H is added. New text is underlined and deleted text is struck through.

…

Reporting Foreign Currency Transactions in the Functional Currency

…

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 ~~determined~~ measured.**

…

Effective Date

…

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.**

…

Appendix A

Foreign Currency Transactions and Advance Consideration

This Appendix is an integral part of IPSAS 4.

…

Scope

…

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

…

Amendments to IPSAS 9, Revenue from Exchange Transactions

Paragraph 11 is amended. Paragraph 41F is added. New text is underlined and deleted text is struck through.

…

Definitions

11. **The following terms are used in this Standard with the meanings specified:**

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.

~~Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.~~

Non-exchange transactions 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. Fair value is defined in IPSAS 46, *Measurement*.

…

Effective Date

…

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.**

…

Amendments to IPSAS 10, *Financial Reporting in a Hyperinflationary Economy*

Paragraph 31 is amended. Paragraph 38G is added. New text is underlined and deleted text is struck through.

…

The Restatement of Financial Statements

…

Corresponding Figures

31. Corresponding figures for the previous reporting period, whether they were based on an historical cost ~~approach~~ model or a current ~~cost approach~~ 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.

…

Effective Date

…

38G. **<u>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.</u>**

…

Amendments to IPSAS 12, *Inventories*

Paragraphs 10 and 47 are amended. Paragraphs 50A–50F, and 51H are added. New text is underlined and deleted text is struck through.

…

Definitions

…

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 amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace.~~ <u>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.</u> The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs ~~to sell~~ <u>of disposal</u>.

…

Disclosure

47. **The financial statements shall disclose:**

The accounting policies adopted in measuring inventories, including the cost formula used;

The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

The carrying amount of inventories carried at fair value less costs ~~to sell~~ <u>of disposal</u>**;**

…

<u>Current Value Measurement</u>

50A. **<u>An entity shall disclose information that helps users of its financial statements assess both of the following:</u>**

(a) **<u>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</u>**

(b) **<u>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.</u>**

50B. To meet the objectives in paragraph 50A, an entity shall consider all the following:

(a) <u>The level of detail necessary to satisfy the disclosure requirements;</u>

(b) <u>How much emphasis to place on each of the various requirements;</u>

(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

…

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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 12.

…

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.

Amendments to IPSAS 16, *Investment Property*

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 above paragraphs 42, 62, 65, 86, 87, 89A, 90, 97 and 100 are amended. Paragraphs 89A–89F, and 101K are added. Paragraphs 45–48, 51–56, 58, 60, and 86(d) are deleted. New text is underlined and deleted text is struck through.

…

Measurement at Recognition

…

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 ~~fair~~ current value model (paragraphs 42–64) or the historical cost model (paragraph 65).

…

38. 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~~ measurements is not significant for that asset or (b) the probabilities of the various ~~estimates~~ measurements within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value. If the entity is able to ~~determine~~ 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.

Measurement after Recognition

Accounting Policy

39. With the exception noted in paragraph 41A, an entity shall choose as its accounting policy either the ~~fair~~ current value model in paragraph 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 ~~fair~~ current value model to the historical cost model will result in a more relevant presentation.

41. This Standard requires all entities to ~~determine~~ measure the fair value of investment property, for the purpose of either measurement (if the entity uses the ~~fair~~ current value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to ~~determine~~ 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 ~~fair~~ 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 ~~fair~~ current value model or the historical cost model for all other investment property, regardless of the choice made in (a).**

…

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 ~~fair~~ 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.

~~Fair~~ Current Value Model

42. After initial recognition, an entity that chooses the ~~fair~~ current value model shall measure all of its investment property at fair value, except in the cases described in paragraph 62.

…

45. **The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 7). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale**. [Deleted]

46. ~~An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.~~ [Deleted]

47. **~~The fair value of investment property shall reflect market conditions at the reporting date.~~** [Deleted]

48. ~~Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.~~ [Deleted]

49. When measuring the ~~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 ~~reasonable and supportable~~ other assumptions that ~~represent what knowledgeable, willing parties~~ market participants would ~~assume~~ use when pricing the investment property ~~about rental revenue from future leases in the light of~~ under current market conditions. ~~It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property.~~

49A. When a lessee uses the ~~fair~~ 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 ~~fair~~ current value model. When lease payments are at market rates, the fair value of 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 ~~model~~ is made after initial recognition.

51. ~~The definition of fair value refers to "knowledgeable, willing parties". In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the reporting date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.~~ [Deleted]

52. ~~A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (e.g., a willing seller would not take into account the particular tax circumstances of the actual investment property owner).~~ [Deleted]

53. ~~The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.~~ [Deleted]

54. ~~The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location, or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.~~ [Deleted]

55. ~~In the absence of current prices in an active market of the kind described in paragraph 54, an entity considers information from a variety of sources, including:~~

(a) ~~Current prices in an active market for properties of different nature, condition, or location (or subject to different lease or other contracts), adjusted to reflect those differences;~~

(b) ~~Recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and~~

(c) ~~Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence, such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.~~ [Deleted]

56. ~~In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.~~ [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 ~~estimates~~ measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single ~~estimate~~ measure of fair value is negated. This may indicate that the fair value of the property will not be reliably ~~determinable~~ measurable on a continuing basis (see paragraph 62).

58. ~~Fair value differs from value in use, as defined in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including 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 knowledgeable, willing buyers and sellers:~~

(a) ~~Additional value derived from the creation of a portfolio of properties in different locations;~~

(b) ~~Synergies between investment property and other assets;~~

(c) ~~Legal rights or legal restrictions that are specific only to the current owner; and~~

(d) ~~Tax benefits or tax burdens that are specific to the current owner.~~ [Deleted]

59. In determining the carrying amount of investment property under the fair value ~~model~~ 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 ~~model~~ basis.

60. ~~The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.~~ [Deleted]

…

Inability to ~~Determine~~ Measure Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably ~~determine~~ 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 ~~determinable~~ measurable on a continuing basis. This arises when, and only when, the market for comparable ~~market~~ 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) ~~are infrequent~~ and alternative reliable ~~estimates~~ 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 ~~determinable~~ measurable but expects the fair value of the property to be reliably ~~determinable~~ measurable when construction is complete, it shall measure that investment property under construction at historical cost until either its fair value becomes reliably ~~determinable~~ 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 ~~determinable~~ measurable on a continuing basis, the entity shall measure that investment property using the historical cost model in IPSAS 17 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 17 or IPSAS 43 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 17 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 ~~determined~~ 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 17 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 ~~fair~~ current value model.

…

Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure investment property:**

(a) **In accordance with IPSAS 43 if it is held by a lessee as a right-of-use asset;**

(b) **In accordance with the requirements in IPSAS 17 for the historical cost model if it is held by an owner as an owned investment property; and**

(c) **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).**

…

Transfers

…

70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the ~~fair~~ 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.

…

Disposals

…

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 ~~fair~~ 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.

…

Disclosure

~~Fair~~ Current Value Model and Historical Cost Model

…

86. **An entity shall disclose:**

(a) **Whether it applies the ~~fair~~ 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) ~~**The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by**~~

~~**market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;**~~

(e) **…**

…

~~Fair~~ <u>Current</u> Value Model

87. **In addition to the disclosures required by paragraph 86, an entity that applies the ~~fair~~ <u>current</u> 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) …

…

89. **In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the <u>historical</u> cost model in IPSAS 17 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:**

…

(b) **An explanation of why fair value cannot be ~~determined~~ <u>measured</u> reliably;**

…

<u>Current Value Measurement</u>

89A. **<u>An entity shall disclose information that helps users of its financial statements assess both of the following:</u>**

(a) **<u>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</u>**

(b) **<u>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.</u>**

89B. <u>To meet the objectives in paragraph 89A, an entity shall consider all the following:</u>

(a) <u>The level of detail necessary to satisfy the disclosure requirements;</u>

(b) <u>How much emphasis to place on each of the various requirements;</u>

(c) <u>How much aggregation or disaggregation to undertake; and</u>

(d) <u>Whether users of financial statements need additional information to evaluate the quantitative information disclosed.</u>

<u>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.</u>

89C. <u>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:</u>

(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:**

…

(e) **The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot ~~determine~~ measure the fair value of the investment property reliably, the entity shall disclose:**

…

(ii) **An explanation of why fair value cannot be ~~determined~~ measured reliably; and**

…

Transitional Provisions

…

~~Fair~~ Current Value Model

…

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 (~~determined~~ measured on a basis that satisfies the definition of fair value and the guidance in ~~paragraphs 45–61~~ 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

…

Effective Date

…

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.**

…

Basis for Conclusions

…

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.

Amendments to IPSAS 21, Impairment of Non-Cash-Generating Assets

Paragraphs 2, 10 and 29 are amended. Paragraphs 10A and 82M are added. New text is underlined and deleted text is struck through.

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) Assets arising from construction contracts (see IPSAS 11, Construction Contracts);

   (c) Financial assets that are included in the scope of IPSAS 41, Financial Instruments;

   (d) Investment property that is measured using the ~~fair~~ current value model (see IPSAS 16, Investment Property);

   (e) …

…

Scope

…

10. This Standard does not require the application of an impairment test to ~~an~~ investment property ~~that is carried~~ measured at fair value ~~in accordance with~~ within the scope of IPSAS 16. This is because, under the ~~fair~~ 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.

…

Identifying an Asset that may be Impaired

…

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) ~~During the period,~~ There are observable indications that the ~~an~~ asset's ~~market~~ 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.

…

…

Effective Date

…

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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 21.

…

Property, Plant, and Equipment and Intangible Assets

…

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 ~~to sell~~ 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 ~~may also be~~ were also adopted to measure fair value under IPSAS 17 and IPSAS 31 and therefore the value in use ~~is~~ was a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs ~~to sell~~ 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*.

…

Reversal of Impairment

…

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. The IPSASB has not included repair of an asset as an indication of reversal, because IPSAS 17 requires 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. This requirement also applies to investment property that is 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.

…

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.

…

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.
- ~~IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the allowed alternative treatment in IPSAS 17. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.~~
- 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."

Amendments to IPSAS 22, Disclosure of Financial Information about the General Government Sector

Paragraph 32 is amended. Paragraph 47G is added. New text is underlined and deleted text is struck through.

…

Accounting Policies

…

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~~s~~ 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.

…

Effective Date

…

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.**

…

Basis for Conclusions

…

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 a historical cost model and current value~~s~~ model for certain classes of assets and liabilities;

(b) …

…

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

Paragraphs 42 and 124I are added New text is underlined and deleted text is struck through.

…

Recognition of Assets

…

Measurement of Assets on Initial Recognition

42. **An asset acquired through a non-exchange transaction shall initially be measured at its ~~fair~~ current value as at the date of acquisition.**

…

Effective Date

…

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.**

…

Basis for Conclusions

Measurement of Assets

BC16. Prior to the effective date of IPSAS 46, *Measurement*, ~~This~~ this Standard ~~requires~~ required that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. The IPSASB ~~is of the view that this is~~ 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 ~~represents~~ 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 ~~is~~ 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~~ had 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.

…

Amendments to IPSAS 26, Impairment of Cash-Generating Assets

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 paragraphs 41 are amended. Paragraphs 10A, 66A and 126O are added. Paragraphs 38–40 are deleted. New text is underlined and deleted text is struck through.

…

Scope

…

8. This Standard does not apply to inventories and cash-generating assets arising from construction contracts, or assets classified as held for sale (or included in a disposal group that is classified as held for sale) 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 ~~to sell~~ of disposal. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

…

10. This Standard does not require the application of an impairment test to ~~an~~ investment property ~~that is carried~~ measured at fair value ~~in accordance with~~ within the scope of IPSAS 16. Under the ~~fair~~ 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.

…

Definitions

13. **The following terms are used in this Standard with the meanings specified:**

…

Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs ~~to sell~~ of disposal and its value in use.

…

Identifying an Asset that may be Impaired

…

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) **~~During the period,~~ There are observable indicators that an asset's ~~market~~ value has declined during the period significantly more than would be expected as a result of the passage of time or normal use;**

…

Measuring Recoverable Amount

31. This Standard defines "recoverable amount" as the higher of an asset's fair value less costs ~~to sell~~ 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 ~~to sell~~ 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 ~~determine~~ measure fair value less costs ~~to sell~~ of disposal, even if there is not a quoted price in an active market for an identical asset ~~is not traded in an active market~~. However, sometimes it will not be possible to ~~determine~~ measure fair value less costs ~~to sell~~ of disposal 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~~ 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 ~~to sell~~ of disposal, the asset's fair value less costs ~~to sell~~ 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

[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.

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 ~~to sell~~ 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 ~~to sell~~ of disposal and the asset's fair value less costs ~~to sell~~ of disposal can be ~~determined~~ measured.

36. In some cases, estimates, averages and computational shortcuts may provide reasonable approximations of the detailed computations for determining fair value less costs ~~to sell~~ of disposal or value in use.

…

Fair Value less Costs ~~to Sell~~ of Disposal

38. ~~The best evidence of an asset's fair value less costs to sell is the 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.~~ [Deleted]

39. ~~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.~~ [Deleted]

40. ~~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 that reflects the amount that an entity could obtain, at the 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 considers the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale.~~ [Deleted]

41. Costs of disposal, other than those that have been recognized as liabilities, are deducted in ~~determining~~ measuring fair value less costs ~~to sell~~ 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 ~~a business~~ 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 ~~to sell~~ of disposal is available for both the asset and the liability. Paragraph 89 explains how to deal with such cases.

Value in Use

…

Composition of Estimates of Future Cash Flows

…

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 ~~to sell~~ of disposal, except that, in estimating those net cash flows:

(a) …

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.

…

Cash-Generating Units and Goodwill

…

Identifying the Cash-Generating Unit to which an Asset Belongs

…

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 ~~to sell~~ 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.

…

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 ~~to sell~~ 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.

…

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 ~~to sell~~ 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).

…

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 ~~to sell~~ of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the ~~estimated selling~~ price to sell ~~for~~ 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.

…

Impairment Loss for a Cash-Generating Unit

…

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 ~~to sell~~ of disposal (if ~~determinable~~ measurable);**

…

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 ~~to sell~~ 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 ~~to sell~~ of disposal is less than its carrying amount.

…

Reversing an Impairment Loss

…

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~~ the asset's ~~market~~ value has increased significantly during the period;**

…

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 ~~to sell~~ 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 ~~to sell~~ of disposal, a change in estimate of the components of fair value less costs ~~to sell~~ of disposal.

…

Disclosure

…

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:**

…

(e) **Whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs ~~to sell~~ of disposal or its value in use;**

(f) **If the recoverable amount is fair value less costs ~~to sell~~ of disposal, ~~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~~ 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; and**

(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.**

…

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:**

…

(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 ~~to sell~~ of disposal);**

(d) **If the unit's (group of units') recoverable amount is based on value in use:**

(i) **~~A description of each~~ 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;**

…

(e) **If the unit's (group of units') recoverable amount is based on fair value less costs ~~to sell~~ of disposal, the ~~methodology~~ measurement technique(s) used to ~~determine~~ measure fair value less costs ~~to sell~~ of disposal. If fair value less costs ~~to sell~~ of disposal is not ~~determined~~ measured using ~~an observable market~~ a quoted price for ~~the~~ an identical unit (group of units), an entity shall disclose the following information ~~shall also be disclosed~~:**

(i) **~~A description of each~~ Each key assumption on which management has based its determination of fair value less costs ~~to sell~~ 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 ~~to sell~~ of disposal is ~~determined~~ measured using discounted cash flow projections, an entity shall disclose the following information ~~shall also be disclosed~~:

(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.**

…

Effective Date

…

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.**

…

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

…

Fair Value less Costs ~~to Sell~~ of Disposal and Forced Sales

…

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.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26.

…

Calculation of Value in Use and Recognition of an Impairment Loss

Background and Calculation of Value in Use

…

IG13. It is not possible to determine the fair value less costs ~~to sell~~ 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) Selects 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.

…

Inclusion of Recognized Liabilities in Calculation of Recoverable Amount of a Cash-Generating Unit

…

Impairment Testing

…

IG24. The cash-generating unit's fair value less costs ~~to sell~~ 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.

…

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 ~~to sell~~ 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

…

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 ~~to sell~~ 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

…

IG29. The holding tank's value in use can be estimated to be close to its fair value less costs ~~to sell~~ 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 ~~to sell~~ of disposal is 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 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the revaluation model in IPSAS 17, *Property, Plant, and Equipment*. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.~~

- ~~IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.~~
- 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 ~~to sell~~ 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."

Amendments to IPSAS 27, *Agriculture*

Paragraphs 19, 20, 26, 29 and 34 are amended. Paragraphs 46A–46F and 56J are added. Paragraphs 14, 21–25, 27, 45 and 46 are deleted. New text is underlined and deleted text is struck through.

…

Recognition and Measurement

…

14. ~~The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle either to that market or to the location where it will be distributed at no charge or for a nominal charge.~~ [Deleted]

…

19. The ~~determination of~~ fair value measurement of ~~for~~ 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 ~~determining~~ measuring fair value, because fair value reflects the current market conditions in which ~~a willing buyer and seller~~ 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. ~~If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.~~ [Deleted]

22. ~~If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:~~

(a) ~~The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;~~

(b) ~~Market prices for similar assets with adjustment to reflect differences; and~~

(c) ~~Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.~~ [Deleted]

23. ~~In some cases, the information sources listed in paragraph 22 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.~~ [Deleted]

24. ~~In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined rate in determining fair value.~~ [Deleted]

25. ~~The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market.~~ [Deleted]

26. An entity does not include any cash flows for financing the assets, ~~taxation,~~ or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

27. ~~In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored.~~ [Deleted]

…

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 ~~determine~~ measure the fair value ~~for~~ 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.

…

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~~-determined~~ prices ~~or values~~ are not available, and for which alternative ~~estimates of~~ 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.**

…

Disclosure

General

…

45. **~~An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.~~ [Deleted]**

46. **~~An entity shall disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.~~ [Deleted]**

Current Value Measurements

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.

…

Effective Date

…

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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

…

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.

Amendments to IPSAS 28, Financial Instruments: Presentation

Paragraph AG56 is amended. Paragraph 60I is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

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.**

…

Application Guidance

This Appendix is an integral part of IPSAS 28.

…

Presentation

…

Treatment in Consolidated Financial Statements

…

Compound Financial Instruments (paragraphs 33–37)

…

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:

…

(b) The equity instrument is an embedded option to convert the liability into net assets/equity of the issuer. ~~The fair value of the option comprises its time value and its intrinsic value, if any.~~ This option has value on initial recognition even when it is out of the money.

…

Amendments to IPSAS 30, Financial Instruments: Disclosures

Paragraphs 8 and 34 are amended. Paragraphs 30A–30I and 52M are added. Paragraphs 31–33 are deleted. New text is underlined and deleted text is struck through.

…

Definitions

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

…

<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 <u>by</u> factors affecting all similar financial instruments traded in the market.

…

Significance of Financial Instruments for Financial Position and Financial Performance

…

Other Disclosures

…

Fair Value

…

30A. **<u>An entity shall disclose information that helps users of its financial statements assess both of the following:</u>**

(a) **<u>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</u>**

(b) **<u>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.</u>**

30B. <u>To meet the objectives in paragraph 30A, an entity shall consider all the following:</u>

(a) <u>The level of detail necessary to satisfy the disclosure requirements;</u>

(b) <u>How much emphasis to place on each of the various requirements;</u>

(c) <u>How much aggregation or disaggregation to undertake; and</u>

(d) <u>Whether users of financial statements need additional information to evaluate the quantitative information disclosed.</u>

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 IPSAS 41.AG143O, 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. ~~An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.~~ [Deleted]

32. ~~To make the disclosures required by paragraph 33 an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:~~

(a) ~~Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);~~

(b) ~~Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices) (Level 2); and~~

(c) ~~Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).~~

~~The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.~~ [Deleted]

33. ~~For fair value measurements recognized in the statement of financial position an entity shall disclose for each class of financial instruments:~~

(a) ~~The level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 32.~~

(b) ~~Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities.~~

(c) ~~For fair value measurements in Level 3, a reconciliation from the beginning balances to the ending 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 a description of where they are presented in the statement of financial performance;~~

(ii) ~~Total gains or losses recognized in net assets/equity;~~

(iii) ~~Purchases, sales, issues, and settlements (each type of move-ment disclosed separately); and~~

(iv) ~~Transfers into or out of Level 3 (e.g., transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.~~

(d) ~~The amount of total gains or losses for the period in (c)(i) above included in surplus or deficit that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of financial performance.~~

(e) ~~For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this 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.~~

~~An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.~~ [Deleted]

34. ~~If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG149–AG154 of IPSAS 41). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless conditions described in paragraph AG151 of IPSAS 41 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:~~ 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 ~~that~~ difference between the fair value at initial recognition and the transaction price ~~in surplus or deficit~~ to reflect a change in factors (including time) that market participants would ~~consider in setting a price~~ take into account when pricing the asset or liability (see paragraph AG117(b) of IPSAS 41);~~ and~~

(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.

…

Effective Date and Transition

…

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.**

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 30.

…

Significance of Financial Instruments for Financial Position and Financial Performance (paragraphs 10–36, AG4 and AG5)

…

Fair Value (paragraph~~s 31–~~34)

…

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 ~~valuation~~ 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).

…

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 ~~valuation~~ 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 ~~valuation~~ 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). ~~Paragraph 33 requires disclosures in these circumstances.~~ 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 ~~valuation~~ technique to establish the financial assets' fair value. This measurement ~~valuation~~ technique includes variables other than data from observable markets.

At initial recognition, the same measurement ~~valuation~~ 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 ~~valuation~~ technique to ~~determine~~ 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 ~~valuation~~ 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 ~~valuation~~ 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 ~~valuation~~ technique, that difference is [description of the entity's accounting policy].

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 45, 48, 71, 74, 75, 76, 81, 83, 99, 121, 123 and 124, and the headings of paragraphs 73, 74, and 123, are amended. Paragraphs 123A–123F and 132N are added. New text is underlined and deleted text is struck through.

…

Recognition and Measurement

…

Exchanges of Assets

…

45. Paragraph 28(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset ~~for which comparable market transactions do not exist~~ is reliably measurable if:

    (a) The variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that asset: or

    (b) The probabilities of the various ~~estimates~~ measurements within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value.

    If an entity is able to ~~determine~~ 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.

…

Internally Generated Goodwill

…

48. Differences between the ~~market~~ fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

…

Subsequent Measurement

71. **An entity shall choose either the historical cost model in paragraph 73 or the ~~revaluation~~ current value model in paragraph 74 as its accounting policy. If an intangible asset is accounted for using the ~~revaluation~~ current value model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.**

…

Historical Cost Model

…

Current Value ~~Revaluation~~ Model

74. **After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be ~~determined~~ measured by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.**

75. The ~~revaluation~~ current value model does not allow:

    (a) The revaluation of intangible assets that have not previously been recognized as assets; or

    (b) The initial recognition of intangible assets at amounts other than cost.

76. The ~~revaluation~~ current value model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 63), the ~~revaluation~~ current value model may be applied to the whole of that asset. Also, the ~~revaluation~~ current value model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs 42–43).

…

81. **If the fair value of a revalued intangible asset can no longer be ~~determined~~ measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.**

…

83. If the fair value of the asset can be ~~determined~~ measured by reference to an active market at a subsequent measurement date, the ~~revaluation~~ current value model is applied from that date.

…

Intangible Assets with Finite Useful Lives

…

Residual Value

99. **The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:**

    (a) **There is a commitment by a third party to acquire the asset at the end of its useful life; or**

    (b) **There is an active market <u>(as defined in IPSAS 46)</u> for the asset, and:**

        (i) **Residual value can be determined by reference to that market; and**

        (ii) **It is probable that such a market will exist at the end of the asset's useful life.**

…

Disclosure

General

…

121. **An entity shall also disclose:**

  …

    (a) **For intangible assets acquired through a non-exchange transaction and initially recognized at fair value (see paragraphs 42–43):**

        (i) **The fair value initially recognized for these assets;**

        (ii) **Their carrying amount; and**

        (iii) **Whether they are measured after recognition under the <u>historical</u> cost model or the <u>current value</u> ~~revaluation~~ model.**

    (b) **…**

…

Intangible Assets Measured after Recognition using the <u>Current Value</u> ~~Revaluation~~ Model

123. **If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:**

    (a) **By class of intangible assets:**

        (i) **The effective date of the revaluation;**

        (ii) **The carrying amount of revalued intangible assets; and**

        (iii) **The carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the <u>historical</u> cost model in paragraph 73;**

    (b) …

    (c) ~~The methods and significant assumptions applied in estimating the assets' fair values.~~ [Deleted]

123A. **<u>An entity shall disclose information that helps users of its financial statements assess both of the following:</u>**

(a) **For intangible 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.**

123B. To meet the objectives in paragraph 123A, 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 123A, an entity shall disclose additional information necessary to meet those objectives.

123C. To meet the objectives in paragraph 123A, an entity shall disclose, at a minimum, the following information for each class of intangible assets (see paragraph 123D for information on determining appropriate classes of intangible 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 intangible 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 intangible 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, 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 intangible 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).

123D. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of intangible assets (as determined in paragraph 71) is required on the basis of the following:

(a) The nature, characteristics and risks of the intangible assets; 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 number of classes 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 appropriate classes of intangible assets for which disclosures about fair value measurements should be provided requires judgment. A class of intangible 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 class for an intangible asset, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

123E. For each class of intangible 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 123C(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 123C(c). For such intangible assets, an entity does not need to provide the other disclosures required by this Standard.

123F. <u>An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.</u>

124. It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the <u>historical</u> cost and <u>current value</u> ~~revaluation~~ models.

Effective Date

…

132N. **<u>Paragraphs 45, 48, 71, 74, 75, 76, 81, 83, 99, 121, 123, and 124 , and the related headings of paragraphs 73, 74, and 123 were amended, and paragraphs 123A–123F were added 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.</u>**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

…

<u>Current Value</u> ~~Revaluation~~ Model

BC9. The <u>current value</u> ~~revaluation~~ model proposed in IPSAS 31 is similar to <u>the revaluation model</u> ~~that~~ in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. IPSAS 17, *Property, Plant, and Equipment* requires revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB considered this approach for intangible assets, but concluded that it was not necessary because intangible assets differ from property, plant, and equipment in that they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis.

…

Revision of IPSAS 31 as a result of *Improvements to IPSAS, 2018*

BC13. Paragraph 109 requires an entity to test an intangible asset for impairment when reassessing its useful life. When this standard was issued, such a test was only required for intangible assets measured under the <u>historical</u> cost model. Following the publication of *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) in July 2016, this test is required for all intangible assets, and paragraph 109 has been amended accordingly.

<u>Revision of IPSAS 31 as a result of IPSAS 46, *Measurement*</u>

BC14. <u>IPSAS 46, 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 remove guidance on measurement in IPSAS 31 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.</u>

BC15. <u>IPSAS 46 introduced current operational value, a public sector current value measurement basis. This measurement basis is primarily applied when assets are held for their operational capacity. When IPSAS 46</u>

was issued, the IPSASB concluded intangible assets are held for their highest and best use and measurement is therefore consistent with fair value measurement. Current operational value was therefore not added as an available measurement basis to IPSAS 31.

Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)

Paragraphs 9, 64–72, 96B, and 148 are amended. Paragraphs 41B, 64A, 152A–152F and 154M are added. New text is underlined and deleted text is struck through.

…

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

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

~~Deemed cost is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.~~ [deleted]

…

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

…

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

…

41A. **A first-time adopter shall apply the guidance in IPSAS 46 when measuring assets and/or liabilities.**

…

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS During the Period of Adoption

…

Using Deemed Cost to Measure Assets and/or Liabilities

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

(a) **Inventory (see IPSAS 12);**

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

(ba) **Right-of-use assets (see IPSAS 43);**

(c) **~~Property, plant, and equipment (see IPSAS 17);~~** [deleted]

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

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

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

(e) **Financial Instruments (see IPSAS 41); or**

(f) **Service concession assets (see IPSAS 32).**

64A. A first-time adopter may elect to measure property, plant, and equipment, at deemed cost, being current operational value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets and liabilities is not available. In accordance with IPSAS 45, the primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis. 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.

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

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

67. **A first-time adopter may elect to use the revaluation amount of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:**

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

(ab) **Current operational value, when the property, plant, and equipment is held for its operational capacity.**

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

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

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

(b) If the measurement date is after the date of adoption of IPSAS, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven fair value, or current operational value, measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.

69. In ~~determining~~ measuring the ~~fair~~ current value in accordance with paragraph 67, the first-time adopter shall apply the definition of fair value, or current operational value, and guidance in ~~other applicable IPSAS~~ IPSAS 46 ~~in determining the fair value of the asset in question. The fair value shall reflect conditions that existed at the date on which it was determined~~.

70. **If ~~reliable market-based evidence of fair~~ observable inputs of current value ~~is~~ are not available for inventory, ~~or~~ investment property that is of a specialized nature, or property, plant, and equipment, a first-time adopter may consider ~~the following~~ other measurement ~~alternatives~~ techniques in determining a deemed cost in accordance with IPSAS 46.~~:~~**

(a) **~~For inventory, current replacement cost; and~~**

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

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

71. **A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at its fair value, or for property, plant, and equipment at its current operational value or fair value, when reliable cost information about the asset is not available, and use that ~~fair~~ value as its deemed cost. In accordance with IPSAS 45, the primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis. 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.**

Using Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates (IPSAS 34)

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

(a) **Cost; or**

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

…

IPSAS 43, *Leases*

…

96B Notwithstanding the requirements in paragraph 96A, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of adoption of IPSAS for leases that meet the definition of investment property in IPSAS 16 and are measured using the ~~fair~~ current value model in IPSAS 16 from the date of adoption of IPSAS.

...

Disclosures

Disclosures where Deemed Cost is Used for Inventory, Investment Property, Property, Plant, and Equipment, Intangible Assets, Financial Instruments or Service Concession Assets

148. **If a first-time adopter uses ~~fair~~ a current value measurement basis~~, or the alternative in paragraphs 64, 67 or 70,~~ as deemed cost for inventory, investment property, property, plant and equipment, intangible assets, financial instruments, or service concession assets, its financial statements shall disclose:**

(a) **The aggregate of those ~~fair~~ current values~~ or other measurement alternatives~~ that were considered in determining deemed cost;**

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

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

…

Current Value Measurement

152A. **An entity shall disclose information that helps users of its financial statements assess the following:**

(a) **For assets or liabilities that are measured at current operational value or fair value on a non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.**

152B. To meet the objectives in paragraph 152A, 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 152A, an entity shall disclose additional information necessary to meet those objectives.

152C. To meet the objectives in paragraph 152A, an entity shall disclose, at a minimum, the following information for each class of assets or liabilities measured at current operational value or fair value (including measurements based on current operational value or fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) For non-recurring current operational value or fair value measurements, the current operational value or fair value measurement at the end of the reporting period, and the reasons for the measurement. Non-recurring current operational value or fair value measurements of assets or liabilities are those that this Standard requires or permits in the statement of financial position in particular circumstances.

(b) For non-recurring current operational value or fair value measurements, whether the current operational value or fair value measurements are estimated using observable or unobservable inputs, and the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3), or of the current operational value estimated using unobservable inputs.

(c) For non-recurring current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or 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 current operational value or fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or 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 current operational value or 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 current operational value or fair value measurement and are reasonably available to the entity.

(d) For non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for non-recurring current operational 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 current operational value or fair value measurements from period to period).

152D. An entity shall determine the appropriate disaggregation of assets or liabilities on the basis of the following:

(a) The nature, characteristics and risks of the assets or liabilities; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the current operational value or 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, or for current operational value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of assets or liabilities for which disclosures about current operational value or fair value measurements should be provided requires judgment. Assets or liabilities 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 asset or a liability, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

152E. For each class of assets or liabilities not measured at current operational value or fair value in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 152C(b), (c) and (d). 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 current operational value or fair value measurements estimated using unobservable inputs, required by paragraph 152C(c). For such assets or liabilities, an entity does not need to provide the other disclosures required by this Standard.

152F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

…

Effective Date

…

154M. **Paragraphs 9, 64–72, 96B, and 148 were amended and paragraphs 41B, 64A, and 152A–152F were added 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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

…

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

Deemed Cost

Deemed Cost for Assets and/or Liabilities

…

BC84A. As part of the development of IPSAS 46, *Measurement*, additional guidance on deemed cost was developed. This guidance was developed to clarify the application of deemed cost in practice. Measurement guidance in IPSAS 46 is generic in nature, and was developed to supplement specific guidance in specific IPSAS. The deemed cost guidance in IPSAS 46 was developed to be consistent with the existing guidance in this Standard. However, where specific deemed cost guidance in this Standard exists, it takes precedent over the generic guidance in IPSAS 46.

…

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

…

BC93. In determining "fair value", when IPSAS 33 was developed, the guidance in each applicable IPSAS ~~is~~ was considered, where such guidance ~~is~~ was provided. In IPSAS 17 it ~~is~~ was noted that fair value ~~is~~ was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also ~~states~~ stated that if ~~market based~~ market-based evidence ~~is~~ was not available to measure items of property, plant and equipment, an entity ~~can~~ could estimate fair value using replacement cost, reproduction cost or a service units approach.

BC94. The IPSASB noted that the fair value guidance in IPSAS 16 only ~~considers~~ considered a market-based value, and that limited guidance ~~is~~ was provided in IPSAS 12 in determining fair value. The IPSASB concluded that because a first-time adopter may find it difficult to determine a market-based fair value for all investment properties and all inventories, other measurement alternatives may need to be considered in determining deemed cost for inventory or investment property.

BC94A. The IPSASB has since issued IPSAS 46, which provides a consistent approach to measuring fair value in all IPSAS. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, which guidance on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the continued use of measurement alternatives was appropriate, and noted that the alternatives included in IPSAS 33 are consistent with measurement techniques available in IPSAS 46 to estimate fair value. The IPSASB agreed to modify the wording of IPSAS 33 accordingly.

BC95. The IPSASB agreed that a first-time adopter may consider the following measurement ~~alternatives~~ techniques in determining a deemed cost if ~~reliable market-based evidence~~ observable inputs of fair value ~~is~~ are not available on the date of adoption of IPSAS, or on the date that the asset is recognized and/or measured where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets:

(a) For inventory, current replacement cost; and

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

…

Revision of IPSAS 33 as a result of IPSAS 46, *Measurement*

BC127. IPSAS 46, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets and liabilities, to ensure a consistent approach across all IPSAS. Paragraph 70 of this Standard permits a first-time adopter to consider replacement cost as a measurement alternative to fair value when observable inputs are not available for inventory or investment property. Since IPSAS 46 does not identify replacement cost as measurement bases, the IPSASB consider whether it should be replaced.

BC128. Since replacement cost is retained in IPSAS 12, *Inventories*, and IPSAS 16, *Investment Property,* the IPSASB agreed to retain replacement cost in the context of this Standard to maintain consistency in principles between the specific requirements in individual IPSAS, and the principles on first-time adoption.

BC129. Furthermore, the IPSASB agreed to add current operational value as an alternative measurement basis to fair value for property, plant, and equipment. Current operational value was added to align the principles in this Standard with IPSAS 45, *Property, Plant, and Equipment,* which, as a result of IPSAS 45, permits measuring property, plant, and equipment at current operational value for subsequent measurement.

BC130. IPSAS 46 also provided additional generic guidance on the application of deemed cost. This guidance is consistent with the deemed cost guidance in this Standard (see BC84A).

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

Deemed Cost

…

Determining a Deemed Cost During the Period of Transition

…

IG42. For example, a first-time adopter adopts IPSAS on January 1, 20X1 and adopts the exemption that provides a three-year transitional relief period for the recognition of an investment property. Because the first-time adopter does not have reliable cost information about the historical cost of the investment property on the date of adoption of IPSAS, it decides to determine a deemed cost for the investment property. The deemed cost for the investment property is determined during the second reporting period (i.e., 20X2) in which the first-time adopter applies the exemption. IPSAS 33 allows the first-time adopter to use the deemed cost determined during 20X2 in recognizing the investment property by adjusting the opening accumulated surplus and deficit on January 1, 20X2. The deemed cost as determined on January 1, 20X2 will be used in determining subsequent depreciation and in assessing impairment where the first-time adopter elects to apply the historical cost model as its subsequent measurement basis in applying IPSAS 16.

…

Amendments to IPSAS 34, Separate Financial Statements

Paragraphs 23A–23H and 32E are added. New text is underlined and deleted text is struck through.

…

Disclosure

…

Current Value Measurement

23A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For investments 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.**

23B. To meet the objectives in paragraph 23A, 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 23A, an entity shall disclose additional information necessary to meet those objectives.

23C. To meet the objectives in paragraph 23A, an entity shall disclose, at a minimum, the following information for each class of investments (see paragraph 23D for information on determining appropriate classes of investments) 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 investments 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 investments 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 investments 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 23E). 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, 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 23E). 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 investments 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.

23D. An entity shall determine the appropriate disaggregation of investments on the basis of the following:

(a) The nature, characteristics and risks of the investments; 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, or for fair value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of investments for which disclosures about fair value measurements should be provided requires judgment. Investments 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 investments, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

23E. 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 23C(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.

23F. If an entity makes an accounting policy decision to use the exception in paragraph IPSAS 41.AG143, it shall disclose that fact.

23G. For each class of investments 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 23C(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 23C(d). For such investments, an entity does not need to provide the other disclosures required by this Standard.

23H. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

…

Effective Date

…

32E. **Paragraphs 23A–23H 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.**

…

Amendments to IPSAS 38, Disclosure of Interests in Other Entities

Paragraphs 57A–57F and 61E are added. New text is underlined and deleted text is struck through.

…

Current Value Measurement

57A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For interests in other entities 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.**

57B. To meet the objectives in paragraph 57A, 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 57A, an entity shall disclose additional information necessary to meet those objectives.

57C. To meet the objectives in paragraph 57A, an entity shall disclose, at a minimum, the following information for each class of interests in other entities (see paragraph 57D for information on determining appropriate classes of interests in other entities) 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 interests in other entities 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 interests in other entities 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 (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those interests in other entities 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).

57D. An entity shall determine the appropriate disaggregation of interests in other entities on the basis of the following:

(a) The nature, characteristics and risks of the interests in other entities; 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, or for fair value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of interests in other entities for which disclosures about fair value measurements should be provided requires judgment. Interests in other entities 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 interests in other entities, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

57E. For each class of interests in other entities 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 57C(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 57C(c). For such interests in other entities, an entity does not need to provide the other disclosures required by this Standard.

57F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

…

Effective Date

…

61E. **Paragraphs 57A–57F 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.**

…

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 8 and 144 are amended and paragraph 176D is added. New text is underlined and deleted text is struck through.

…

Definitions

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

:…

Definitions Relating to the Net Defined Benefit Liability (Asset)

…

The deficit or surplus is:

(a) **The present value of the defined benefit obligation less**

(b) **The fair value (as defined in IPSAS 46, *Measurement*), of plan assets (if any).**

…

<u>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.</u>

Short-Term Employee Benefits

…

Post-Employment Benefits—Defined Benefit Plans

…

Disclosure

…

Explanation of Amounts in the Financial Statements

…

144. An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market <u>(as defined in IPSAS 46)</u> and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, an entity could distinguish between:

…

Effective Date

…

176D. **<u>Paragraphs 8 and 144 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.</u>**

…

Amendments to IPSAS 40, Public Sector Combinations

Paragraph 72 is amended and paragraph 126G is added. New text is underlined and deleted text is struck through.

…

The Acquisition Method of Accounting

…

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

…

Measurement Principle

72. **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values <u>(as defined in IPSAS 46, *Measurement*)</u>. <u>Appendix D of IPSAS 46 provides guidance on measuring assets and liabilities at fair value.</u>**

…

Effective Date

…

126G. **Paragraph 72 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.**

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 40

…

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of IPSAS 40

…

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant and equipment using the historical cost model in ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. COB has previously adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model in ~~IPSAS 17~~ IPSAS 45.

IE168. RE adopts an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.

…

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37–39 of IPSAS 40

…

IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE has adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

…

Measurement Period in Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of IPSAS 40

…

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the ~~revaluation~~ current value model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the ~~revaluation~~ current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

…

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40.

IE192. …

Paragraph reference				
		Original Amount (CU)	**Adjustment (CU)**	**Revised Amount (CU)**
54(e)(i)	Restatement of financial assets reorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant and equipment recorded by COA to measure the items using the ~~revaluation~~ current value model	12,116	17,954	30,070

…

Disclosure Requirements Relating to Acquisitions

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 119–125 of IPSAS 40.

IE278. The following example illustrates some of the disclosure requirements relating to acquisitions; it is not based on an actual transaction. The example assumes that AE is a public sector entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

…

Paragraph reference	
…	
124(b)	… owned by TE, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted). The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between CU0 and CU2,500. The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying an income approach. The fair value measurement is based on significant inputs that are not observable in the market, which IPSAS 46, *Measurement*, refers to as Level 3 inputs. Key assumptions include a discount rate range of 20–25 percent and assumed probability-adjusted revenues in XE of CU10,000–20,000. As of 31 December 20X2, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.

…

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 9, 66, AG31, AG38, AG115 and AG117 are amended. Paragraphs AG143A–AG143AB, and 156G are added. Paragraphs 67, 68 and AG144–AG155 are deleted. New text is underlined and deleted text is struck through.

…

Definitions

9. …

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 following terms are defined in either IPSAS 28, ~~or~~ IPSAS 30, *Financial Instruments: Disclosures*, *or* IPSAS 46, *Measurement*: credit risk[4], currency risk, fair value, liquidity risk, market risk, equity instrument, financial asset, financial instrument, financial liability and puttable instrument.

…

Measurement

…

[4] This term (as defined in IPSAS 30) is used in the requirements for presenting the effects of changes in credit risk on liabilities designated as at fair value through surplus or deficit (see paragraph 108).

Fair Value Measurement Considerations

66. In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, IPSAS 28 or IPSAS 30, an entity shall apply IPSAS 46 and paragraphs AG143A–AG143AB ~~AG144–AG155~~ of Appendix A.

67. ~~The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.~~ [Deleted]

68. ~~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, discounted from the first date that the amount could be required to be paid.~~ [Deleted]

…

Effective Date and Transition

Effective Date

…

156F. **Paragraphs 9, 66, AG31, AG38, AG115 and AG117 were amended, paragraphs AG143A–AG143AB were added, and paragraphs 67, 68 and AG144–AG155 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.**

…

Application Guidance

This Appendix is an integral part of IPSAS 41.

…

Recognition and Derecognition

…

Transfers that Qualify for Derecognition

…

AG31. When measuring the fair values of the part that continues to be recognized and the part that is derecognized for the purposes of applying paragraph 24, an entity applies the fair value measurement requirements in ~~paragraphs 66–68 and AG144–AG155~~ IPSAS 46 in addition to paragraph 25.

…

Examples

…

AG38. …

	~~Estimated~~ ~~fair~~ Fair value	*Percentage*	*Allocated carrying amount*
Portion transferred	9,090	90 percent	9,000
Portion retained	1,010	10 percent	1,000
Total	**10,100**		**10,000**

…

Initial measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

AG115. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also paragraph AG117 and IPSAS 46. However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument ~~is estimated, using a valuation technique (see paragraphs AG149–AG154)~~. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of revenue unless it qualifies for recognition as some other type of asset.

…

AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also IFRS 13). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 58, the entity shall account for that instrument at that date as follows:

(a) At the measurement required by paragraph 57 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a ~~valuation~~ measurement technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) …

…

Subsequent Measurement

…

Fair Value Measurement Considerations

Application to Liabilities and an Entity's Own Equity Instruments

General Principles

AG143A. A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g., equity interests issued as consideration in a public sector combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfill the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and

(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

AG143B. Even when there is no observable market to provide pricing information about the transfer of a liability or an entity's own equity instrument (e.g., because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets (e.g., a government bond or a call option on an entity's shares).

AG143C. In all cases, an entity shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants at the measurement date under current market conditions.

Liabilities and Equity Instruments Held by Other Parties as Assets

AG143D. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

AG143E. In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:

(a) Using the quoted price in an *active market* for the identical item held by another party as an asset, if that price is available.

(b) If that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.

(c) If the observable prices in (a) and (b) are not available, using another measurement technique, such as

(i) An *income approach* (e.g., a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset; see paragraphs 45 and C35); and

(ii) A *market approach* (e.g., using quoted prices for similar liabilities or equity instruments held by other parties as assets; see paragraphs 42, C31 and C32).

AG143F. An entity shall adjust the quoted price of a liability or an entity's own equity instrument held by another party as an asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. An entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

(a) The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (e.g., the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset; and

(b) The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

Liabilities and Equity Instruments not Held by Other Parties as Assets

AG143G. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a measurement technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

AG143H. For example, when applying a present value technique an entity might take into account either of the following:

(a) The future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation (see paragraphs AG143X–AG143Z); or

(b) The amount that a market participant would receive to enter into or issue an identical liability or equity instrument, using the assumptions that market participants would use when pricing the identical item (e.g., having the same credit characteristics) in the principal (or most advantageous) market for issuing a liability or an equity instrument with the same contractual terms.

Non-Performance Risk

AG143I. The fair value of a liability reflects the effect of *non-performance risk*. Non-performance risk includes, but may not be limited to, an entity's own credit risk (as defined in IFRS 7 *Financial Instruments: Disclosures*). Non-performance risk is assumed to be the same before and after the transfer of the liability.

AG143J. When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:

(a) Whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability); and

(b) The terms of credit enhancements related to the liability, if any.

AG143K. The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account. The issuer of a liability issued with an inseparable third-party credit enhancement that is accounted for separately from the liability shall not include the effect of the credit enhancement (e.g., a third-party guarantee of debt) in the fair value measurement of the liability. If the credit enhancement is accounted for separately from the liability, the issuer would take into account its own credit standing and not that of the third-party guarantor when measuring the fair value of the liability.

Restriction Preventing the Transfer of a Liability or an Entity's Own Equity Instrument

AG143L. When measuring the fair value of a liability or an entity's own equity instrument, an entity shall not include a separate input or an adjustment to other *inputs* relating to the existence of a restriction that prevents the transfer of the item. The effect of a restriction that prevents the transfer of a liability or an entity's own equity instrument is either implicitly or explicitly included in the other inputs to the fair value measurement.

AG143M. For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

Financial Liability with a Demand Feature

AG143N. 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, discounted from the first date that the amount could be required to be paid.

Application to Financial Assets and Financial Liabilities with Offsetting Positions in Market Risks or Counterparty Credit Risk

AG143O. An entity that holds a group of financial assets and financial liabilities is exposed to market risks (as defined in IFRS 7) and to the credit risk (as defined in IFRS 7) of each of the counterparties. If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this IFRS for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e., an asset) for a particular risk exposure or paid to transfer a net short position (i.e., a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

AG143P. An entity is permitted to use the exception in paragraph AG143O only if the entity does all the following:

(a) Manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;

(b) Provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in IPSAS 20, *Related Party Disclosures*; and

(c) Is required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period.

AG143Q. The exception in paragraph AG143O does not pertain to financial statement presentation. In some cases, the basis for the presentation of financial instruments in the statement of financial position differs from the basis for the measurement of financial instruments, for example, if an IPSAS does not require or permit financial instruments to be presented on a net basis. In such cases an entity may need to allocate the portfolio-level adjustments (see paragraphs AG143T–AG143W) to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of the entity's net risk exposure. An entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.

AG143R. An entity shall make an accounting policy decision in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* to use the exception in paragraph AG143O. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs AG143T–AG143V) and credit adjustments (see paragraph AG143W), if applicable, consistently from period to period for a particular portfolio.

AG143S. The exception in paragraph AG143O applies only to financial assets, financial liabilities and other contracts within the scope of IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement*, if IPSAS 41 has not yet been adopted). The references to financial assets and financial liabilities in paragraphs AG143O–AG143R and AG143T–AG143W should be read as applying to all contracts within the scope of, and accounted for in accordance with, IPSAS 41 (or IPSAS 29, if IPSAS 41 has not yet been adopted), regardless of whether they meet the definitions of financial assets or financial liabilities in IPSAS 29, *Financial Instruments: Presentation*.

Exposure to Market Risks

AG143T. When using the exception in paragraph AG143O to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the entity's net exposure to a particular market risk (or risks), the entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks (see paragraphs AG143AA and AG143BB).

AG143U. When using the exception in paragraph AG143O, an entity shall ensure that the market risk (or risks) to which the entity is exposed within that group of financial assets and financial liabilities is substantially the same. For example, an entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability because doing so would not mitigate the entity's exposure to interest rate risk or commodity price risk. When using the exception in paragraph AG143O, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets and financial liabilities within the group.

AG143V. Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities shall be substantially the same. For example, an entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a five-year financial instrument within a group made up of only those financial assets and financial liabilities measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure (i.e., years 2–5) on a gross basis.

Exposure to the Credit Risk of a Particular Counterparty

AG143W. When using the exception in paragraph AG143O to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (e.g., a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Applying Present Value Techniques to Liabilities and an Entity's Own Equity Instruments not Held by Other Parties as Assets (paragraphs AG143G and AG143H)

AG143X. When using a present value technique to measure the fair value of a liability that is not held by another party as an asset (e.g., a decommissioning liability), an entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for the following:

(a) Undertaking the activity (i.e., the value of fulfilling the obligation; e.g., by using resources that could be used for other activities); and

(b) Assuming the risk associated with the obligation (i.e., a risk premium that reflects the risk that the actual cash outflows might differ from the expected cash outflows; see paragraph AG143Z).

AG143Y. For example, a non-financial liability does not contain a contractual rate of return and there is no observable market yield for that liability. In some cases, the components of the return that market participants would require will be indistinguishable from one another (e.g., when using the price a third party contractor would charge on a fixed fee basis). In other cases, an entity needs to estimate those components separately (e.g., when using the price a third party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

AG143Z. An entity can include a risk premium in the fair value measurement of a liability or an entity's own equity instrument that is not held by another party as an asset in one of the following ways:

(a) By adjusting the cash flows (i.e., as an increase in the amount of cash outflows); or

(b) By adjusting the rate used to discount the future cash flows to their present values (i.e., as a reduction in the discount rate).

An entity shall ensure that it does not double-count or omit adjustments for risk. For example, if the estimated cash flows are increased to take into account the compensation for assuming the risk associated with the obligation, the discount rate should not be adjusted to reflect that risk.

Inputs to Measurement Techniques

AG143AA. If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (i.e., Level 1, 2 or 3; see paragraphs D59–D89 of IPSAS 46, *Measurement*). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.

AG143AB. IPSAS 46 does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

AG144. ~~Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. However, fair value reflects the credit quality of the instrument.~~ [Deleted]

AG145. ~~This Standard uses the terms "bid price" and "asking price" (sometimes referred to as "current offer price") in the context of quoted market prices, and the term "the bid-ask spread" to include only transaction costs. Other adjustments to arrive at fair value (e.g., for counterparty credit risk) are not included in the term "bid-ask spread."~~ [Deleted]

~~Active Market: Quoted Price~~

AG146. ~~A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction. The objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur at the end of the reporting period in that instrument (i.e., without modifying or repackaging the instrument) in the most advantageous active market to which the entity has immediate access. However, the entity adjusts the price in the more advantageous market to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure the financial asset or financial liability.~~ [Deleted]

AG147. ~~The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. When current bid and asking prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g., a change in the risk-free interest rate following the most recent price quote for a government bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. Similarly, if the entity can demonstrate that the last transaction price is not fair value (e.g., because it reflected the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted. The fair value of a portfolio of financial instruments is the product of the number of units of the instrument and its quoted market price. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.~~ [Deleted]

AG148. ~~If a rate (rather than a price) is quoted in an active market, the entity uses that market-quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the entity adjusts for those factors.~~ [Deleted]

~~No Active Market: Valuation Technique~~

AG149. ~~If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.~~ [Deleted]

AG150. ~~The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if (a) it reasonably reflects how the market could be expected to price the instrument and (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.~~ [Deleted]

AG151. ~~Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased.~~ [Deleted]

AG152. ~~The initial acquisition or origination of a financial asset or incurrence of a financial liability is a market transaction that provides a foundation for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by the entity or by others for similar debt instruments (i.e., similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis). Alternatively, provided there is no change in the credit risk of the debtor and applicable credit spreads after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date. If conditions have changed since the most recent market transaction, the corresponding change in the fair value of the financial instrument being valued is determined by reference to current prices or rates for similar financial instruments, adjusted as appropriate, for any differences from the instrument being valued.~~ [Deleted]

AG153. ~~The same information may not be available at each measurement date. For example, at the date that an entity makes a loan or acquires a debt instrument that is not actively traded, the entity has a transaction price that is also a market price. However, no new transaction information may be available at the next measurement date and, although the entity can determine the general level of market interest rates, it may not know what level of credit or other risk market participants would consider in pricing the instrument on that date. An entity may not have information from recent transactions to determine the appropriate credit spread over the basic interest rate to use in determining a discount rate for a present value computation. It would be reasonable to assume, in the absence of evidence to the contrary, that no changes have taken place in the spread that existed at the date the loan was made. However, the entity would be expected to make reasonable efforts to determine whether there is evidence that there has been a change in such factors. When evidence of a change exists, the entity would consider the effects of the change in determining the fair value of the financial instrument.~~ [Deleted]

AG154. ~~In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made.~~ [Deleted]

~~Inputs to Valuation Techniques~~

AG155. ~~An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others).~~

(a) ~~The time value of money (i.e., interest at the basic or risk-free rate). Basic interest rates can usually be derived from observable government bond prices and are often quoted in financial publications. These rates typically vary with the expected dates of the projected cash flows along a yield curve of interest rates for different time horizons. For practical reasons, an entity may use a well-accepted and readily observable general market rate, such as a swap rate, as the benchmark rate. (If the rate used is not the risk-free interest rate, the credit risk adjustment appropriate to the particular financial instrument is~~

~~determined on the basis of its credit risk in relation to the credit risk in this benchmark rate). In some countries, the central government's bonds may carry a significant credit risk and may not provide a stable benchmark basic interest rate for instruments denominated in that currency. Some entities in these countries may have a better credit standing and a lower borrowing rate than the central government. In such a case, basic interest rates may be more appropriately determined by reference to interest rates for the highest rated corporate bonds issued in the currency of that jurisdiction.~~

(b) ~~Credit risk. The effect on fair value of credit risk (i.e., the premium over the basic interest rate for credit risk) may be derived from observable market prices for traded instruments of different credit quality or from observable interest rates charged by lenders for loans of various credit ratings.~~

(c) ~~Foreign currency exchange prices. Active currency exchange markets exist for most major currencies, and prices are quoted daily in financial publications.~~

(d) ~~Commodity prices. There are observable market prices for many commodities.~~

(e) ~~Equity prices. Prices (and indexes of prices) of traded equity instruments are readily observable in some markets. Present value based techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.~~

(f) ~~Volatility (i.e., magnitude of future changes in price of the financial instrument or other item). Measures of the volatility of actively traded items can normally be reasonably estimated on the basis of historical market data or by using volatilities implied in current market prices.~~

(g) ~~Prepayment risk and surrender risk. Expected prepayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data. (The fair value of a financial liability that can be surrendered by the counterparty cannot be less than the present value of the surrender amount – see paragraph 68).~~

(h) ~~Servicing costs for a financial asset or a financial liability. Costs of servicing can be estimated using comparisons with current fees charged by other market participants. If the costs of servicing a financial asset or financial liability are significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability. It is likely that the fair value at inception of a contractual right to future fees equals the origination costs paid for them, unless future fees and related costs are out of line with market comparables.~~ <u>[Deleted]</u>

…

Basis for Conclusions

…

<u>Revision of IPSAS 41 as a result of IPSAS 46, *Measurement*</u>

BC53. <u>The IPSASB issued IPSAS 46, *Measurement*, in May 2023. That Standard provides guidance on measuring assets and liabilities at fair value, which is relevant to the measuring financial instruments. Guidance specific to applying fair value to the measurement of financial instruments was added as application guidance (see paragraphs AG143A–AG143AB).</u>

…

Amendments to IPSAS 42, *Social Benefits*

Paragraphs 12 and AG17 are amended. Paragraph 35B is added. New text is underlined and deleted text is struck through.

…

General Approach

…

Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability

12. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability. IPSAS 46, *Measurement*, provides guidance on measuring liabilities at cost of fulfillment.**

…

Effective Date

…

35B. **Paragraphs 12 and AG17 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.**

…

Application Guidance

This Appendix is an integral part of IPSAS 42.

…

General Approach (see paragraphs 6–21)

…

Measurement of a Liability for a Social Benefit Scheme

…

AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. IPSAS 14, *Events After the Reporting Date*, and Appendix C of IPSAS 46, *Measurement*, provide~~s~~ guidance on using this information.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 42.

…

Revision of IPSAS 42 as a result of IPSAS 46, *Measurement*

BC168. The IPSASB issued IPSAS 46, *Measurement*, in May 2023. That Standard provides guidance on measuring liabilities at the cost of fulfillment, which is relevant to measuring the liability for social benefits under the general approach. That guidance includes a requirement that a risk adjustment is considered in estimating the cost of fulfillment. Generally, this is not expected to affect the measurement of the liability under the general approach given the short-term nature of most social benefit liabilities.

BC169. While the guidance on measuring liabilities at cost of fulfillment is not expected to change the measurement of liabilities for social benefits under the general approach in the majority of cases, the IPSASB agreed to amend Illustrative Examples 9 and 10 to avoid references to using information about payments made after the reporting date, which might conflict with the guidance in IPSAS 46. The IPSASB noted that the provisions in other IPSAS regarding materiality would allow entities to use information about payments made after the reporting date where the effect of doing so was not materially different from using estimates made at the reporting date.

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 42

…

General Approach: Recognition and Measurement

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Example 9

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IE37. In this example, it is assumed that there is no difference between the estimates Government I ~~has complete information at the date it pays retirement pensions~~ used in recognizing the liability and the actual amount of pensions paid. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).

IE38. On ~~January 31, 20X9~~ December 31, 20X8, Government I ~~pays~~ recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Government I estimates that, on January 31, 20X9, it will pay retirement pensions totaling CU3,053,576. There are three elements to this ~~payment~~ estimate as follows:

	CU
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	3,053,576

IE39. ~~As at December 31, 20X8, Government I recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are issued after the January 20X9 retirement pensions have been paid, Government I uses the information available at that time to prepare its financial statements.~~ [Deleted]

IE40. Consequently, Government I recognizes a liability of CU3,016,020. This includes the full pensions that will be paid to those pensioners eligible at December 31, 20X8 and who are estimated to remain~~ing~~ eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions that will be paid to those pensioners eligible at

December 31 who ~~died~~ are estimated to die during January 20X9 (CU36,420). The liability does not include the pro-rated pensions that will be paid to those who ~~reach~~ are estimated to reach retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

IE41. During 20X8, the total amount recognized as an expense is CU36,485,544. The breakdown of this amount is as follows:

	CU
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognized in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and estimated to remain~~ing~~ eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who are estimated to die~~d~~ during January 20X9 (recognized in December 20X8)	36,420
Total	36,485,544

Example 10

...

IE46. In this example, it is assumed that there is no difference between the estimates State Government J used in recognizing the liability and the actual amount of ~~has complete information at the date it pays~~ unemployment benefits paid. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).

IE47. On ~~July 15, 20X2~~ June 30, 20X2, State Government J ~~pays~~ recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. State Government J estimates that, on July 15, 20X2, it will pay unemployment benefits totaling CU132,952. There are four elements to this ~~payment~~ estimate as follows:

	CU
Unemployment benefits to be paid to unemployed persons eligible at June 15, 20X2 and are estimated to remain~~ing~~ eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits to be paid to those unemployed persons eligible at June 15, 20X2 whose eligibility ~~had~~ was estimated to come to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits to be paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045
Pro-rated unemployment benefits to be paid to those unemployed persons who were estimated to become ~~became~~ eligible between July 1, 20X2 and July 15, 20X2	4,812
Total	132,952

IE48. ~~As at June 30, 20X2, State Government J recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, State Government J uses the information available at that time to prepare its financial statements.~~ [Deleted]

IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:

(a) The unemployment benefits that will be paid to those unemployed persons eligible at June 15, 20X2 and who are estimated to remain~~ing~~ eligible at July 15, 20X2 (CU113,120);

(b) The pro-rated unemployment benefits that will be paid to those unemployed persons eligible at June 15, 20X2 whose eligibility is estimated to ~~had~~ come to an end by July 15, 20X2 (CU9,975); and

(c) The pro-rated unemployment benefits that will be paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).

IE50. The liability does not include the pro-rated unemployment benefits that will be paid to those who are estimated to become ~~became~~ eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.

IE51. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as an expense is CU1,714,949. The breakdown of this amount is as follows:

	CU
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognized in the financial year July 1, 20X1–June 30, 20X2	1,582,131
Unemployment benefits estimated to be paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those estimated to remain~~ing~~ eligible and those whose eligibility ~~had~~ is estimated to come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)	128,140
	1,714,949

…

Amendments to IPSAS 43, *Leases*

Paragraphs 35 and 113 are amended. Paragraph 103C is added. New text is underlined and deleted text is struck through.

…

Lessee

…

Measurement

…

Other Measurement Models

35. If a lessee applies the fair value measurement basis in the current value model in IPSAS 16, *Investment Property* to its investment property, the lessee shall also apply that fair value ~~model~~ measurement basis to right-of-use assets that meet the definition of investment property in IPSAS 16.

…

Transition

…

Lessees

…

Leases Previously Classified as Operating Leases

…

113. Notwithstanding the requirements in paragraph 112, for leases previously classified as operating leases applying IPSAS 13, a lessee:

(a) Is not required to make any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9) that will be accounted for applying paragraph 7. The lessee shall account for those leases applying this Standard from the date of initial application.

(b) Is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value measurement basis in the current value model in IPSAS 16. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

(c) Shall measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases applying IPSAS 13 and that will be accounted for as investment property using the fair value measurement basis in the current value model in IPSAS 16 from the date of initial application. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

…

Effective Date and Transition

Effective Date

103C. **Paragraphs 35 and 113 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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43.

…

Revision of IPSAS 43 as a result of IPSAS 46, *Measurement*

…

IPSAS 43, *Leases*

…

Fair Value

BC64. In developing ED 75, the IPSASB had considered whether to retain the fair value definition consistent with IFRS 16 and IPSAS 13 or to include the fair value definition consistent with ~~ED 77~~ IPSAS 46, *Measurement*.

BC65. The IPSASB had noted that including the fair value definition consistent with ~~ED 77~~ IPSAS 46 might significantly change the lease classification and the timing of recognizing gains or losses for sale and leaseback transactions.

…

Responses to ED 75, *Leases*

BC67. While the majority of respondents agreed with the ED 75 proposals, some respondents disagreed with the retention of the fair value definition from IFRS 16, *Leases* and IPSAS 13, *Leases* in ED 75 because:

(a) Of the possible confusion for users and preparers of having two different fair value definitions in IPSASB's literature;

(b) Sale and leaseback transactions (where the definition of fair value is used) occur infrequently in the public sector;

(c) Of the benefits of the consistent use of terminology in IPSASB literature; and

(d) Most countries are still in the process of implementing IPSAS and, therefore, the change to the ~~ED 77~~ IPSAS 46 fair value definition would not cause significant change for their accounting system.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 46.

Introduction

The Purpose of Measurement in Public Sector Financial Statements

BC1. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities and related revenues and expenditures that users need for accountability and decision making. Measurement that fairly reflects the cost of services, operational capacity and financial capacity of a public sector entity supports users' assessments of such matters as:

(a) Whether the entity provided its services to constituents in an efficient and effective manner;

(b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;

(c) To what extent the burden on future-year taxpayers of paying for current services has changed; and

(d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

Service Delivery Objective and Public Sector Assets and Liabilities

BC2. Public sector measurement should take into account both the primary objective of most public entities and the type of assets and liabilities that such entities hold. 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. The type of assets and liabilities that a public sector entity holds is likely to reflect this objective. For example, 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. Because of the types of services provided, a significant proportion of assets used by public sector entities are specialized—for example, roads and military assets. There may be a limited market for specialized assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets.

BC3. Another common feature of public sector assets is that they are held to achieve policy objectives, such as service delivery, which need to be taken into account when measurement aims to derive a value that reflects existing use.

BC4. 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.

BC5. 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.

Measurement of Assets and Liabilities for Financial Reporting by Public Sector Entities

BC6. Chapter 7 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) addresses measurement of assets and liabilities in the financial statements. In developing Chapter 7, the IPSASB took into account the special characteristics of the public sector, the needs of users, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.

BC7. Where an asset is held primarily for its service potential, rather than its ability to generate future economic benefits, its measurement should provide information on the value of the asset's service potential to the entity. This was an important consideration for the IPSASB, as it developed concepts for public sector measurement and identified appropriate measurement bases for use in the public sector.

BC8. The objective of measurement and the measurement bases in Chapter 7 of the Conceptual Framework address public sector financial reporting needs. They differ from objectives and measurement bases developed for private sector entities that operate to make a profit and value assets and liabilities in terms of their ability to generate future economic benefits, which focuses on future cash flows.

BC9. 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.

Relationship Between IPSAS 46, Measurement and Other IPSAS

BC10. During the development of this Standard, the IPSASB considered including all requirements with respect to measurement of assets and liabilities in one IPSAS, in order to provide a comprehensive "one stop shop". However, the IPSASB decided:

(a) Other IPSAS should identify which measurement basis should be applied and any specific measurement requirements relating to the assets or liabilities covered by the IPSAS, and address impairment, depreciation, and amortization.

(b) IPSAS 46 should provide the definitions and generic application guidance for the measurement bases identified in the Conceptual Framework. For example, IPSAS 45, *Property, Plant, and Equipment*, allows property, plant, and equipment measured at historical cost, current operational value, or fair value. The application guidance for these measurement bases is located in this Standard.

The objective of this Standard is to support consistent application of measurement bases referred to in other IPSAS.

BC11. The IPSASB decided to develop appendices for the following four measurement bases: historical cost basis, current operational value basis, cost of fulfillment basis, and fair value basis because the greater need for guidance relates to these four measurement bases.

Objective (paragraph 1)

BC12. The Standard's objective explains that it focuses on the definition of appropriate measurement bases and their derivation. It does not establish requirements for which measurement bases should be used in IPSAS. This Standard refers to the objective of measurement in the Conceptual Framework because this underpins its approach to measurement bases and their selection.

Structure of Measurement Standard

BC13. One objective of the measurement project is to provide detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used.

BC14. In order to satisfy this objective, the IPSASB agreed core text should define key terms and provide generic principles for measurement bases and techniques while the appendices would expand on principles for measurement bases and outline how measurement techniques are applied when estimating the value of an asset or liability measured by a specific measurement basis.

BC15. The IPSASB concluded this structure is appropriate because:

(a) Core text stands alone. Including principle level guidance for measurement bases and measurement techniques in the core text allows it to be read and applied independently of the appendices.

(b) Minimal duplication. The most significant challenge to overcome in structuring the material was to reduce the duplication of measurement technique guidance between the core text and the appendices, and within the appendices. This was a challenge because some measurement techniques can be applied to more than one measurement basis. The structure of the Standard allows for key measurement techniques and principles to be included once in the core text, and application of those principles to each measurement basis to be included in the appropriate appendix.

Scope and Definitions (paragraphs 2–6)

BC16. The Standard's scope conveys the definitions of measurement bases and the related appendices apply when another IPSAS requires measurement using one of the defined measurement bases. As part of its scoping decision, the IPSASB considered whether the Standard should include guidance on the measurement of assets held for sale. The IPSASB noted that the issues relating to the measurement of assets held for sale are similar to those relating to the measurement of impaired assets, which is outside the scope of the project. Therefore, the IPSASB decided that the measurement of assets held for sale should also be excluded and issued a separate IPSAS (IPSAS 44, *Non-Current Assets Held for Sale and Discontinued Operations*).

Initial Measurement (paragraphs 7–16)

BC17. The IPSASB discussed the applicability of the subsequent measurement framework to initial and subsequent measurement. Unless otherwise required or permitted by another IPSAS, the IPSASB concluded measurement bases identified in the subsequent measurement framework are applicable to initial measurement at deemed cost when the transaction price does not faithfully present relevant information about the entity in a manner that is useful in holding the entity accountable, and for decision-making purposes.

BC18. On the transaction date an asset or liability is initially measured at its transaction price, plus or minus transaction costs, or, as noted in paragraph BC17, at a deemed cost. This approach is applied regardless of whether the current value model or historical cost model is subsequently applied when measuring assets and liabilities in the financial statements.

BC19. A transaction price is applied, where appropriate, because transactions occurring in orderly markets are negotiated between parties at arm's length and are presumed to faithfully present the economics of the transaction. The transaction price is therefore useful for decision-making purposes and to the users of the financial information to hold decision-makers to account. Where transaction price is not appropriate, a deemed cost is calculated using a current value measurement basis to approximate the value of the asset or liability on the transaction date.

BC20. After measurement on the transaction date the entity makes an accounting policy choice, where permitted, to apply a historical cost model or current value model to reflect the measurement objective of the item being measured.

Deemed Cost

BC21. With the development of current operational value for assets held for operational capacity, the IPSASB decided deemed cost should be an amount used as a surrogate for transaction price. The definition of deemed cost in IPSAS 33, *First-Time Adoption of Accruals Basis International Public Sector Accounting Standards (IPSAS)*, was replaced to reflect the IPSASB's decision and allows for initial measurement of property, plant, and equipment transactions where the transaction price does not faithfully present relevant information to be measured at current operational value, in addition to fair value.

BC22. The IPSASB concluded the usefulness of information that current operational value provides financial statement users in subsequent measurement for property, plant, and equipment, held for their operational capacity also applies at initial measurement.

BC23. The IPSASB concluded that:

(a) Fair value faithfully represents the value the public sector entity accrues as a result of the transaction when the property, plant, and equipment, is held for its financial capacity; and

(b) Current operational value faithfully represents the value of the property, plant, and equipment, to the public sector entity when the transaction occurs for assets held for their operational capacity.

Amendments to Other IPSAS

BC24. The initial measurement guidance developed in this Standard, is principles-based and broadly applicable across the IPSAS suite of standards. When making amendments to other IPSAS as a result of IPSAS 46, the IPSASB agreed the initial measurement requirements in individual IPSAS would not be replaced by the initial measurement principles in IPSAS 46. The IPSASB concluded the more specific initial measurement guidance in specific IPSAS continues to be relevant and therefore should be retained.

Subsequent Measurement (paragraphs 17–53)

Use of the Historical Cost Model or Current Value Model

BC25. The IPSASB accepts that the existence of accounting policy options reduces comparability between reporting entities. The IPSASB considered the options for measurement subsequent to initial recognition in existing IPSAS with a view to eliminating or reducing those options.

BC26. The IPSASB noted that Chapter 7 of the Conceptual Framework sets out the measurement objective (see paragraph BC8).

BC27. The Conceptual Framework states that it is not possible to identify a single measurement model that best meets the measurement objective and acknowledges both historical cost and current value measurements models.

BC28. The IPSASB concluded that:

(a) Where an accounting policy choice exists in an IPSAS to measure using the historical cost model or current value model, it would be inconsistent with the Conceptual Framework to eliminate existing accounting policy options for subsequent measurement; and

(b) Such a step would be outside the scope of this Standard, which is to provide requirements and guidance on the definitions and application of measurement bases (i.e., what is meant by each measurement basis and how to derive measurement bases), rather than to specify where they should be used. The latter is a decision for individual standards.

BC29. The Basis for Conclusions of the Conceptual Framework notes that many respondents to the Exposure Draft on the Conceptual Framework and the Exposure Draft on Measurement advocated the continued widespread use of the historical cost basis, mostly in combination with other measurement bases. Supporters of historical cost referenced the accountability objective of financial reporting, the verifiability of historical cost and its suitability for budget reporting purposes where budgets are prepared on a historical cost basis.

BC30. Conversely, those who supported current values linked this view to both decision making and accountability, arguing that the cost of service provision should reflect the value of assets used in service provision at the time they are consumed, rather than their transaction price.

Determining the Measurement Model

BC31. Some respondents to the Measurement Exposure Draft recommended guidance be developed explaining how to determine the appropriate measurement model. The IPSASB agreed clarifications would support the consistent application of the guidance and developed Implementation Guidance to expand on the accounting policy choice.

BC32. The IPSASB noted the historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

(a) A more senior level of government for all entities in a sector or jurisdiction; or

(b) An applicable regulatory framework in the sector or jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity considers the information it believes best meets the qualitative characteristics.

BC33. In selecting the appropriate measurement model, the reporting entity should consider whether it wants its asset or liability to reflect the value of the transaction at the date of initial recognition or the current value of the same transaction on the date of measurement.

Historical Cost (Appendix A)

Measurement Techniques

BC34. The IPSASB agreed initial measurement of an asset or a liability should be at its transaction price, adjusted for transaction costs, or deemed cost. Historical cost is the consideration given to acquire, construct, or develop an asset, plus transaction costs, or the consideration received to assume a liability, minus transaction costs, at the time of the asset's acquisition, construction, or development, or when the liability is incurred.

BC35. Since the measurement framework applies only to subsequent measurement, no measurement techniques apply to the historical cost basis. This is because after initial measurement, the gross carrying amount of an asset or liability measured at the historical cost basis remains unaffected by changes in the underlying current market conditions (i.e., no measurement techniques are applied).

Financial Instruments Measured at Historical Cost

Amortized Cost

BC36. The amortized cost of a financial asset or financial liability reflects estimates of future cash flows discounted at a rate that is not updated after initial recognition. For loans given or received, if interest is receivable or payable regularly, the amortized cost of the loan typically approximates the amount originally paid or received. Therefore, the amortized cost of a financial asset or liability is considered to be a form of the historical cost basis.

Current Operational Value (Appendix B)

BC37. Most responses to the April 2019 Measurement Consultation Paper agreed with the IPSASB's preliminary view that fair value is relevant and applicable in measuring some assets and liabilities in the public sector. Constituents' concerns with fair value related to the fact that when an item is held for its operational capacity, as is often the case in the public sector, fair value is difficult and inappropriate to apply because the following concepts generally are not applicable:

(a) Highest and best use; and

(b) Maximizing the use of market participant data.

BC38. While respondents agreed the fair value definition proposed is applicable in some circumstances, they also noted the definition is unlikely to be appropriate as a current value measurement basis in most cases. Respondents expressed the view that a public sector specific measurement is required.

BC39. The IPSASB agreed with respondents' views and developed a current value measurement basis unique to the public sector. Given fair value is applied to items held for their financial capacity, this basis was developed specifically for assets held for their operational capacity.

BC40. When assets are held for their operational capacity in the public sector, they are held to achieve a policy objective. Holding an asset to meet a policy objective often results in an asset being held in a capacity other than one that satisfies its highest and best financial use. For example, an entity may have a policy objective to provide medical services to citizens of a city center. While operating a building the entity owns as a hospital may not be in the best financial interests of the entity, it does satisfy the policy objective.

BC41. The IPSASB agreed that, when an asset is held for its operational capacity, the most relevant information to the users of financial information is the current value of the asset in its existing use. This provides users with useful information in the public sector:

(a) In the statement of financial position, it reflects the amount an entity would pay at the measurement date for the remaining service potential of its existing assets.

(b) In the statement of financial performance, the consumption of the asset, through depreciation, reflects the amount the entity would incur during the period to provide the service at the prevailing prices when an asset is measured. This differs from the historical cost basis, which reflects consumption of the asset in terms of the prices that prevailed when the asset was acquired, constructed, or developed.

Developing a Public Sector Specific Measurement Basis

BC42. In responding to comments received to the April 2019 Measurement Consultation Paper, the IPSASB developed a new measurement basis that addressed the challenges in measuring most public sector assets. Specifically, the measurement basis considered how to present assets held for their operational capacity in the financial statements that provided users of those reports with relevant and useful information.

BC43. The Measurement Exposure Draft, issued in April 2021, defined current operational value as the value of an asset used to achieve the entity's service delivery objectives at the measurement date. The Exposure Draft clarified the definition by proposing several key principles that were relevant for a public sector measurement basis. These principles included:

(a) Current asset;

(b) Current use of the asset;

(c) Current location of the asset;

(d) Service policy objective of the asset;

(e) Entry price;

(f) Least costly manner;

(g) Current market conditions;

(h) Use of observable inputs; and

(i) Entity-specific valuation.

BC44. The Exposure Draft included an Alternative View proposed by two members of the IPSASB. The Alternative View disagreed with the proposal in the Exposure Draft as follows:

(a) The income approach is not appropriate as a measurement technique for current operational value;

(b) The lack of clarity about the accounting for surplus capacity;

(c) The proposed definition of current operational value could permit either entry or exit values; and

(d) The lack of clarity in the proposed definition of current operational value risks not achieving the qualitative characteristics of financial reporting.

BC45. In responding to the Exposure Draft, stakeholders were clear a public sector measurement basis was necessary. Respondents strongly supported the inclusion of fair value, aligned with IFRS 13, but echoed responses to the Consultation Paper, that fair value would not provide financial statement users with relevant and useful information for assets held for their service capacity. While there was support for current operational value, respondents indicated further clarification on its application in practice was necessary.

BC46. In responding to stakeholder comments, the IPSASB updated current operational value by:

(a) Removing the income approach as a separate measurement technique for current operational value. The IPSASB agreed it is unlikely discounting future cash flows, whether inflows or outflows, would be relevant in determining the amount an entity would pay for the remaining service potential of an asset.

(b) Clarifying when unused capacity is included in current operational value by developing implementation guidance, including a decision tree and examples.

(c) Revising the definition of current operational value to the amount an entity would pay for the remaining service potential of an asset at the measurement date. This clarified current operational value is an entry price and gave those applying the measurement basis a clearer understanding of the basis.

BC47. Finally, in developing the current operational value for this Standard, the IPSASB revisited each principle proposed in the Exposure Draft. The IPSASB reaffirmed each principle was necessary to present relevant and useful information regarding assets held for their operational capacity. The IPSASB also clarified each principle to enhance understandability and facilitate application in practice. The following principles are applicable to current operational value:

(a) Existing asset;

(b) Existing use;

(c) Existing location;

(d) Remaining service potential;

(e) Entry price;

(f) Least costly manner;

(g) Current market conditions;

(h) Use of observable inputs; and

(i) Entity-specific valuation.

Current Operational Value – Amount the Entity Would Pay

BC48. When assets are held for their operational capacity in the public sector, they are held to achieve a policy objective. A strong indication of the value of the operational capacity of an asset is the amount the entity would pay for the remaining service potential of the asset to achieve its policy objective. The IPSASB decided current operational value should reflect this concept by estimating the amount that would be paid for the remaining service potential of an asset (i.e., an entry price) rather than using an exit price (i.e., the amount that could be received to sell the asset), which does not necessarily reflect the amount that would be paid for the remaining service potential of an asset.

BC49. Estimating the amount that would be paid for the remaining service potential of an asset (i.e., the entry price) requires an entity to determine the price that would be paid to acquire that asset in an exchange transaction. The IPSASB decided estimating the price that would be paid to acquire the asset in an exchange transaction remained relevant, even in circumstances where the asset being measured is acquired through a non-exchange transaction. For an estimate to provide relevant and reliable information it should be based on assumptions that can be verified and duplicated by the user of the information. Assuming the asset is acquired, constructed, or developed, in an exchange transaction enables the entity to present useful information allowing the user to observe the amount an entity would pay for the remaining service potential of the asset.

Current Operational Value – Existing Asset

BC50. During the development of this Standard, the IPSASB discussed alternative approaches to capture the value of public sector assets. Based on some responses to the Exposure Draft, the IPSASB considered whether measuring the asset based on the value of the service or benefits the asset provides results in useful and relevant information when presenting an asset held for its operational capacity – i.e., to deliver direct services to the public, and/or to provide a wider community benefit.

BC51. The IPSASB rejected the idea of measuring public sector assets based on the value of services or benefits they provide because:

(a) It is inconsistent with how all other non-financial assets are measured on the statement of financial position;

(b) The IPSASB agreed that a public sector measurement basis that values the asset by valuing the services delivered to the public, or the wider community benefits to the public, would result in the asset recognition criteria not being satisfied, as there is no well-established method in practice to derive such a valuation in a relevant and reliable way.

BC52. The IPSASB agreed that the public sector measurement basis is based on the value of the physical items that comprise the asset. For example, a public sector entity provides a service for passenger vehicles to cross a water way. The service is currently being delivered with a tunnel. A current operational value measurement estimates the amount an entity would pay for the remaining service potential of the asset. In this example, the tunnel. Current operational value does not measure the value of the service and, by extension, alternative assets (such as a bridge or ferry service) that could also provide the same service.

Current Operational Value – Existing Use

BC53. An asset supports an entity in achieving its policy objectives in its existing use. Existing use is the current way an asset or group of assets is used. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. This approach reflects the economic position of the entity, rather than the position prevailing in a hypothetical market.

BC54. The IPSASB agreed the concept of existing use is core to current operational value. The IPSASB agreed with responses to its Exposure Draft that fair value does not present relevant measurement information for assets held for their service capacity because fair value requires assets to be measured at their 'highest and best use'. A public-sector-specific measurement basis must measure assets as they are currently being used to meet the entity's policy objectives. This measurement will provide users of the entity's financial information with the value of the asset to the entity as it is currently being used.

Current Operational Value – Existing Location of the Asset

BC55. The IPSASB noted that, in carrying out a valuation under the cost approach, valuation professionals would consider the cost of a site suitable for the delivery of the service delivery objectives from a modern equivalent asset. This might be a site of a similar size and in a similar location to the actual site. Where the actual site would no longer be considered appropriate because, for example, the service would be delivered more efficiently or effectively from another location, a hypothetical site in an appropriate location would be used as the basis for the land valuation, subject to discussion and agreement with the entity.

BC56. Despite this, the IPSASB agreed that a valuation based on an alternative site would not achieve the objective of a current operational value measurement because it would not provide a value of the existing asset in its existing use. This is because delivering the service from another location is unlikely to be in the public interest, given that the location where the asset is currently situated was selected for service delivery needs. Relocating the asset to another location is a separate, future policy decision that should not be taken into consideration when measuring the asset. Current operational value valuations should be based on delivering the entity's goods and/or services from the existing location.

BC57. The IPSASB noted that measuring land held for its operational capacity at its existing location, total capacity and actual size may result in a valuation that is similar to a market participant valuation, or fair value.

Current Operational Value – Measurement Techniques

BC58. To support the application of current operational value, the IPSASB agreed the market approach and the cost approach reflect the attributes of the measurement basis and can be applied in estimating the value of the asset when measured at current operational value. No hierarchy was developed to select the measurement technique. The IPSASB agreed the selection of the measurement technique that approximates the value of the asset under current operational value should be based on judgment. In most cases the IPSASB believes the selection should be straightforward as the measurement technique is generally selected based on the data available to the entity measuring the asset.

BC59. For example, an active market for an identical asset may exist for certain types of assets. In these circumstances applying the market approach is likely to be a straightforward valuation. As the asset becomes more specialized, the existence of an active market likely decreases. In these circumstances the cost approach is relevant.

BC60. The IPSASB agreed the income approach is not an appropriate measurement technique when estimating the value of the asset when measured at current operational value. Given public sector assets often generate little to no cash flows, and generally cash flows are insufficient to cover operating expenses, the IPSASB concluded discounting future income streams would be impracticable. Furthermore, given the nature of current operational value, the income approach would not be applied in conjunction with another measurement technique because discounting future cash flows is not necessary given the market approach assumes pricing for the asset is available on the measurement date, and the cost approach assumes the production or development of the asset is immediate.

Use of Current Operational Value throughout IPSAS

BC61. A review of existing IPSAS was performed to determine whether the public sector specific measurement basis, current operational value, should be added to, or replace, existing measurement bases in each IPSAS.

BC62. The IPSASB agreed current operational value should be available to estimate the value of property, plant, and equipment within the scope of IPSAS 45. The IPSASB added current operational value to historical cost and fair value as measurement bases available to estimate property, plant, and equipment because many items of property, plant, and equipment are held for their operational capacity in the public sector, which may not be accurately represented when applying fair value.

BC63. The IPSASB identified other instances where current operational value may be appropriate throughout its literature. However, the IPSASB agreed any additional changes to measurement bases are best made through projects specific to the IPSAS in question to allow stakeholders to focus on the impact of the proposal. The IPSASB did not propose current operational value be added to any other IPSAS when this Standard was issued.

Cost of Fulfilment (Appendix C)

BC64. In developing Cost of Fulfillment, the IPSASB considered concepts applied by the IASB related to Fulfillment Value. Both measurement bases share many characteristics. However, one key difference between the bases is fulfillment value requires a risk premium be included when measuring a liability. A risk premium, also known as a risk adjustment or risk margin, is the price for bearing the uncertainty inherent in the cash flows.

BC65. In developing its April 2019 Measurement Consultation Paper, the IPSASB proposed including the requirement to include a risk premium when measuring liabilities using the Cost of Fulfillment measurement basis. Respondents challenged the rationale and questioned the need for a risk premium in the public sector. Respondents:

(a) Questioned whether the risk premium provides faithfully representative and relevant information to users about the extent of the entity's liabilities to be settled in the future;

(b) Noted it does not reflect the least costly manner to fulfill the liability; and

(c) Expressed the view that a risk premium reflects a bias in the estimate due to the entity's perception of its indifference to variable and fixed cash flows.

BC66. The IPSASB agreed concerns raised by stakeholders could apply in some circumstances and agreed that an assessment as to whether to include a risk premium in the valuation of a liability was specific guidance that should be provided on a standard-by-standard basis.

Fair Value (Appendix D)

BC67. During the development of this Standard, the IPSASB considered whether the fair value measurement basis was relevant to measuring assets and liabilities held by public sector entities. The IPSASB concluded that:

(a) There are assets and liabilities held by public sector entities that should be measured at fair value; and,

(b) The term "fair value" should have the same meaning as that established by IFRS 13, *Fair Value Measurement*.

BC68. In reaching these two conclusions the IPSASB noted that there were references to fair value throughout IPSAS. However, the definition of fair value in the initial suite of IPSAS was derived from a pre-IFRS 13 definition. IFRS 13 defines fair value as an exit value, as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

BC69. The IPSASB's 2014 Conceptual Framework did not include fair value in its list of measurement bases because the IPSASB considered that the IFRS 13 meaning of fair value would not be appropriate for many public sector assets and liabilities, because it is an exit value. However, during the development of this Standard, the IPSASB's work on financial instruments has demonstrated that an exit-based definition of fair value is relevant for many financial instruments and more generally assets held for financial capacity rather than operational capacity.

BC70. The IPSASB decided that if the term "fair value" continues to be used in IPSAS, the same meaning as that in IFRS 13 should apply. This avoids confusion and supports good quality measurement, when using this measurement basis.

BC71. In June 2018 the IPSASB approved IPSAS 41, *Financial Instruments*, which is an IFRS-aligned IPSAS. IPSAS 41 identifies fair value as a measurement basis applicable to financial instruments. The IPSASB had already decided, in September 2017, that the Measurement project should allow for measurement at fair value, with the issue being one of how to integrate the IFRS 13 definition of fair value into IPSAS. The IPSASB decided that IPSAS 46 should include the majority of IFRS 13 text to ensure that its definition of fair value would be consistent with that in IFRS 13, and adequately support IPSAS 41's requirements with respect to measurement of financial instruments at fair value. On that basis the Standard's fair value appendix, Appendix D, has reproduced the majority of IFRS 13 text and aims to ensure that the Standard's definition of fair value is the same as that established in IFRS 13.

Use of Fair Value throughout IPSAS

BC72. A review of existing IPSAS was performed to determine whether the updated fair value was applicable in IPSAS where the legacy "fair value" definition was applied. The IPSASB considered the components of the IFRS 13 definition of fair value to identify the key indicator or indicators of the appropriateness of fair value. The IPSASB concluded that the exit versus entry distinction is not useful in selecting measurement bases (see BC7.19–BC7.22 of the IPSASB Conceptual Framework). The IPSASB noted that some jurisdictions considered the specialized versus non-specialized distinction to be useful in considering whether fair value is an appropriate measurement basis. The IPSASB concluded that while the specialization of an asset is a useful distinction, it is not a clear determinant when assessing the appropriateness of fair value. Rather, the IPSASB agreed that an entity's intent to hold the asset or liability for either financial or operational capacity is the clearest indicator. The IPSASB concluded that fair value is an appropriate measurement basis when the asset is held, or the liability incurred, primarily for its financial capacity.

BC73. The IPSASB also cautioned against a "blanket approach" of fair value appropriateness by Standard, as there may be instances where the use of fair value appropriateness may differ by reporting entity in a consolidation, or where a cash-generating or non-cash-generating asset may have hybrid measurement objectives. It is important to consider transaction-specific and entity-specific considerations within each IPSAS when selecting measurement bases.

BC74. In cases where assets held for operational capacity and assets held for financial capacity are within the scope of the same IPSAS, an entity should exercise professional judgment, consider entity- and transaction-specific factors, and apply accounting principles in existing IPSAS. The primary measurement objective, and in turn the measurement basis, is determined for each individual asset or class of assets (i.e., assets with similar nature and use to an entity's operations within the same IPSAS). The IPSASB concluded that accounting principles to guide an entity to group assets of similar nature and determine the intended primary objective are sufficiently illustrated in existing IPSAS guidance.

BC75. The IPSASB concluded that the need for consequential amendments will be decided on a case-by-case basis in accordance with IPSAS 46. In performing this analysis, the IPSASB reviewed each IPSAS and decided to retain the term fair value throughout IPSAS and apply this Standard's definition except for:

(a) IPSAS 43, *Leases*,[5] where the term and existing fair value definition in IPSAS 43 are retained;

(b) IPSAS 21, *Impairment of Non-Cash-Generating Assets*, where the term and existing fair value definition in IPSAS 21 are retained; and

[5] If IPSAS 46, *Measurement* is adopted prior to IPSAS 43, *Leases*, the measurement requirements of this standard do not apply to IPSAS 13, *Leases*.

(c) IPSAS 32, *Service Concession Arrangements: Grantor*, where the term and existing fair value definition in IPSAS 32 are retained.

In each instance where the term and existing fair value definition are retained, the IPSASB decided changes to these definitions of fair value should be considered as part of any projects specific to these IPSAS.

BC76. As noted in BC10, guidance in IPSAS 46 is generic in nature. As such, specific measurement guidance in IFRS 13 has been located in the applicable IPSAS. For example, IFRS 13 paragraphs 34–56 and 70–71 are specific to measuring financial instruments and have been added to IPSAS 41, *Financial Instruments*.

Value in Use

BC77. One of the project's objectives was to provide more detailed guidance on the implementation of commonly used measurement bases and the circumstances under which these measurement bases will be used. In considering whether this Standard should include measurement guidance related to value in use, the IPSASB concluded value in use:

(a) Is not commonly used – value in use is limited to impairment evaluations in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*; and

(b) Is well understood both in application and identifying when it should be applied – IPSAS 21 and IPSAS 26 include extensive measurement guidance when applying a value in use measurement.

BC78. The IPSASB agreed including value in use guidance in this Standard is unnecessary. This decision was supported by responses to the Measurement Consultation Paper.

Application of Measurement Techniques

BC79. Since measurement techniques consider the attributes of measurement bases, some techniques can be applied to multiple bases. As such, the IPSASB decided to place generic measurement technique guidance in the core text to reflect the generic nature of the measurement technique and enable that guidance to be applicable across multiple measurement bases.

BC80. The IPSASB considered how a measurement technique can be used to estimate a value of an asset or a liability under a measurement basis when a public sector entity uses data available to estimate and reflect the attributes of that basis. Based on this analysis, the IPSASB concluded:

(a) The market approach can be used to estimate measures under the fair value and current operational value measurement bases;

(b) The income approach can be used to estimate measures under the fair value and cost of fulfillment measurement bases; and

(c) The cost approach can be used to estimate measures under the fair value and current operational value measurement bases.

The IPSASB noted that judgment is required to select and apply the most appropriate technique to estimate a value of an asset or a liability under a particular measurement basis for each transaction, or event, that best meets the objective of that basis.

BC81. In developing this Standard, the IPSASB elected to align with IFRS 13, *Fair Value*, adopting all measurement techniques set out in IFRS 13. The cost approach is considered an appropriate measurement technique to approximate Fair Value as the cost to replace an asset is consistent with an exit price definition of fair value. An entity's cost to replace an asset would equal the amount that a market participant buyer of that asset (that would use it similarly) would pay to acquire it (i.e., the entry price and the exit price would be equal in the same market).

Depreciation and Amortization

BC82. Depreciation is a charge for the consumption of an asset over its estimated useful life. The Standard does not address depreciation. Requirements and guidance on depreciation are provided at standards level. For example, IPSAS 45, *Property, Plant, and Equipment*, addresses:

(a) The unit of account for depreciation;

(b) The recognition of depreciation;

(c) The point at which depreciation of an asset begins;

(d) The relationship between economic and useful lives;

(e) The circumstances under which land may be depreciated;

(f) Depreciation methods; and

(g) The relationship between the revenue generated by an asset and depreciation.

BC83. Amortization is the term applied to the consumption of an intangible asset that does not have a physical substance. As for depreciation, requirements and guidance are provided at standards-level, and the Standard does not address amortization. IPSAS 31, *Intangible Assets*, distinguishes intangible assets with definite and indefinite useful lives, and for the former provides requirements and guidance on amortization periods and methods and their review and residual value.

BC84. The selection of an accounting policy for measurement subsequent to initial recognition may have an impact on whether an asset is depreciated or amortized. This is determined at standards level. For example, IPSAS 45 requires that assets on the current value model with useful lives are depreciated. IPSAS 16, *Investment Property*, does not require depreciation of an investment property that is measured in accordance with the current value model subsequent to initial recognition.

Disclosures

BC85. The scope of the measurement project included the development of enhanced measurement disclosures that would apply across the IPSAS. In developing disclosures, the IPSASB agreed no additional disclosures are required for assets and liabilities measured using the historical cost model. As no remeasurement occurs, there is no additional information to disclose as part of subsequent measurement.

BC86. For assets and liabilities measured using the current value model, the IPSASB agreed additional disclosures are required. With recurring remeasurements, new information is available as at each measurement date. Disclosures providing information about the measurement techniques, inputs and assumptions applied when measuring assets and liabilities using the current value model provide useful information for decision making.

BC87. The IPSASB developed disclosures that are to be applied consistently across the IPSAS that require assets or liabilities be measured using a measurement basis available in the current value model. These disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied.

BC88. In March 2022, the IPSASB reconfirmed the location of the disclosure requirements. The IPSASB considered whether generic measurement disclosure requirements that apply across the IPSAS should be consolidated in the Measurement standard. The IPSASB expressed concern about splitting the disclosure requirements. The IPSASB agreed to maintain the existing approach of inserting the disclosure requirements in the relevant IPSAS to clearly indicate the disclosures to be applied.

Transition

BC89. The IPSASB concluded that although IPSAS 46 is a major new standard that incorporates the IFRS 13, *Fair Value,* concept into IPSASB literature, much of the Standard is a codification of existing measurement guidance currently spread across many individual IPSAS. IPSAS 46 brings together generic measurement guidance, while transaction-specific guidance remains in those individual IPSAS.

BC90. Consequently, the IPSASB decided that IPSAS 46 should be effective for annual periods beginning on or after January 1, 2025. Because IPSAS 46 applies when other IPSAS require or permit application of the measurement bases, the IPSASB believes that the extended transition period for IPSAS 46 provides enough time for entities, their auditors and users of financial statements to prepare for implementation of its requirements.

BC91. The IPSASB proposed prospective application because a change between current value measures would be inseparable from a change in the current value measurements (i.e., as new events occur or as new information is obtained, e.g., through better insight or improved judgment). Therefore, the IPSASB concluded that IPSAS 46 should be applied prospectively (in the same way as a change in accounting estimate).

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 46.

Section A: Measurement

A.1. *What are the attributes of each measurement basis?*

	Fair Value	Current Operational Value	Cost of Fulfillment	Historical Cost
Asset Valuation	X	X		X
Liability Valuation	X		X	X
Exit Value	X		X	
Entry Value		X		X
Entity Specific		X	X	X
Market Inputs	X	X	X	
Market Participant	X			
Non-Performance Risk	X			
Risk Premium	X			
Current Market Conditions	X	X	X	
Principal or most advantageous market	X	X		
Highest and Best Use	X			
Least costly manner		X	X	

A.2 *What disclosures are required when applying current value measurements bases in IPSAS?*

For assets and liabilities measured using the current value model, additional disclosures are required. With recurring remeasurements, new information is available as at each measurement date. Disclosures providing information about the measurement techniques, inputs and assumptions applied when measuring assets and liabilities using the current value model provide useful information for decision making. These disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied. For example, disclosures related to the fair value hierarchy are inserted in the relevant IPSAS as follows:

			Fair Value Measurement						Only Fair Value Disclosed		
			Recurring			Non-Recurring					
IPSAS	**Relevant paragraph**	**Requirement**	**L1**[6]	**L2**[7]	**L3**[8]	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
IPSAS 12 (50C (b)) **IPSAS 16 (89C (b))** **IPSAS 27 (46C (b))** **IPSAS 30 (30C (b))** **IPSAS 31 (123C (b))** **IPSAS 34 (23C (b))** **IPSAS 38 (57C (b))**	**(a)**	Fair value measurement at the end of the reporting period	X	X	X	X	X	X			
	(a)	Reasons for the measurement				X	X	X			
	(b)	Level of the fair value hierarchy	X	X	X	X	X	X	X	X	X
	(c)	Description of the measurement technique(s) and the inputs used in the fair value measurement		X	X		X	X		X	X
	(c)	Any changes to the measurement technique(s) and the reasons therefore		X	X		X	X		X	X
	(c)	Quantitative information about the significant unobservable inputs used in the fair value measurement		X	X		X	X		X	X
	(d)	Reconciliation from the opening balances to the closing balances			X						
	(e)	Total gains or losses for the period included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those intangible assets held at the end of the reporting period			X						
	(f)	Description of the valuation processes used by the entity			X			X			
	(g)	Narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs			X						

6 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

7 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

8 “Level 3 inputs are unobservable inputs for the asset or liability.

	(g)	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[9].			X						

Section B: Selection of Measurement Bases

B.1. *How does an entity determine the intended primary measurement objective of an asset?*

Where an asset is held for both its financial capacity and operational capacity purposes, an entity shall determine the primary objective of holding the asset in order to select the appropriate measurement basis. An entity should apply professional judgment and consider the principles outlined in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, (paragraphs 16–21) to determine the asset's intended primary objective. Where an entity is unable to do so using those principles, an entity shall presume that the asset is non-cash-generating given the overall objective of the public sector.

B.2. *How does an entity determine whether an asset is one unit of account or multiple units of account?*

In some cases, an asset held for both its financial and operational capacity may be an indicator of where each part of the asset should be measured separately and measured using a different measurement basis. For example, the part of the asset used for operational purposes is measured using current operational value, and the part of the asset used for financial purposes is measured using fair value. This may occur when one wing of a hospital generates a financial return by charging for health care services, while another wing of a hospital is held only for its operational capacity where health care services are delivered free of charge to citizens.

Whether the asset is a stand-alone asset, has multiple parts, or is a group of assets depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the application of one or more measurement bases identified in this Standard.

B.3. *What should an entity consider when determining the appropriate measurement model?*

The historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

(a) A more senior level of government for all entities in a sector or jurisdiction; or

(b) An applicable regulatory framework in the jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity should select the measurement model that best meets the informational needs of the user of the financial reports.

In selecting the appropriate measurement model, the reporting entity should consider whether or not or not it wants its asset or liability to reflect the value of the transaction at the date of initial recognition, or the current value of the same transaction on the date of measurement.

9 This disclosure requirement is limited to the amendments made to IPSAS 30, Financial Instruments: Disclosures.

Section C: Historical Cost

C.1. *Is there a difference between the transaction price and the historical cost basis?*

Yes. Transaction price is defined as the consideration given to acquire, construct, or develop an asset, or received to assume a liability, and is used to measure an asset or liability on the date of initial recognition. The historical cost basis is derived from the transaction price adjusted for transaction costs, or deemed cost where applicable. In some cases, the historical cost basis may be equal to the transaction price, and in some cases the historical cost basis is derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability.

C.2. *Should transaction costs be subtracted from the transaction price when determining the historical cost of a liability?*

Yes. The definition of historical cost includes transaction costs, as such costs can be significant. To appropriately reflect the economics of the liability, transaction costs incurred to assume the liability are deducted from the contractual amount of the borrowing. For example, an entity borrows CU1,000,000 of which transaction costs are CU100,000. In such an instance the historical cost is 900,000 CU. This is because immediately after taking receipt of the CU1,000,000, the transaction costs of CU100,000 is repaid to the institution or counterparty, leaving the entity with CU900,000. The transaction costs of CU100,000 are included in interest expense over the term of the instrument as the carrying amount of CU900,000 is accreted to CU1,000,000 on the settlement date.

Section D: Current Operational Value

D.1. *How does an entity reflect the remaining service potential of an asset?*

Service potential is the capacity to provide services that contribute to achieving the entity's policy objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows. To reflect the remaining service potential, the age, functionality, and condition of the asset need to be reflected in the measurement.

For example, a new asset is expected to have more remaining service potential than an asset that is midway through its service life. The age of the asset is correlated with the remaining service potential. Reflecting the age of the asset in the measurement, ensures the remaining service potential is estimated appropriately.

The current age, functionality, and condition of an asset is reflected in the asset measurement by considering physical, functional, and economic obsolescence.

(a) Physical Obsolescence – Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful lives and their rate of deterioration.

(b) Functional Obsolescence – Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.

(c) Economic (or External) Obsolescence – Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. This may include, for example, capacity that is excess to the usage requirements of the existing asset.

D.2. *How does an entity calculate the current operational value of an asset when there is no active market?*

If the price to acquire an identical, or a similar, asset is unavailable in an active market, current operational value will be determined based on the cost to develop or produce an identical, or a similar, asset (i.e., the cost approach).

When determining the cost to develop or produce an identical, or similar, asset, an entity determines the price of each part of the asset included in the assembly of the asset. The cost to develop or produce the asset also includes the amount that would be paid to assemble the parts, or develop or develop the asset. Observable inputs are used in determining the price of parts and the costs to assemble, construct, or develop when it is feasible to do so. As current operational value is an entity-specific valuation, observable inputs are used when they are available, and they are relevant to the entity. For example, when measuring an aircraft, the ministry of defense may conclude it would acquire each of the parts in an active market, but use its own personnel to construct the aircraft (i.e., the least costly manner). Observable inputs are used for the fuselage, engine, etc. as they are relevant to the ministry of defense. Entity-specific inputs related to the assembly of the parts are applied as the ministry of defense will assemble the aircraft internally.

D.3. *How does an entity identify an identical, or similar, asset when new technology has been developed making the existing asset obsolete?*

An entity measures current operational value by identifying the price it would pay for the remaining service potential of an identical asset in an active market. An identical asset in an active market is used regardless of whether new technology exists that supersedes the asset under valuation. For example, if a health authority is measuring the current operational value of ventilators acquired 10 years previously, it does not consider the newest iteration of a ventilator when identifying an identical asset.

When an identical asset cannot be identified, a similar asset may be the latest iteration of the asset. However, in determining the current operational value, the value of the most recent iteration of the asset is adjusted to reflect the current age, functionality, and condition of the asset under valuation.

D.4. *Is the currently unused capacity of an asset excluded from the current operational value of an asset?*

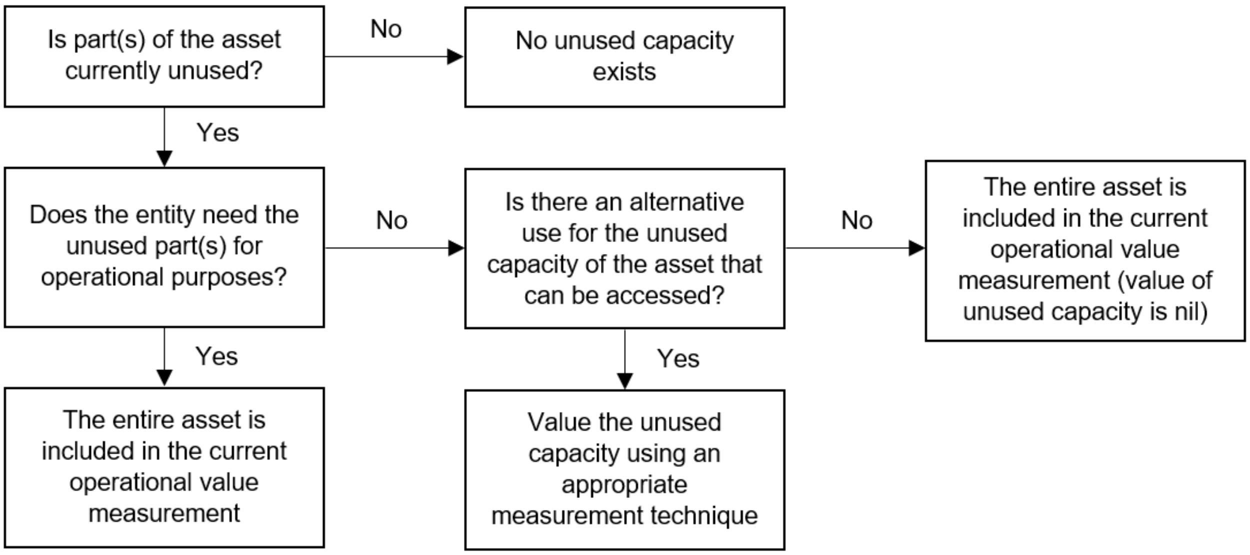
It depends. Any part of the asset that is currently unused is evaluated to determine whether the unused part is held for an operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, or when the unused portion is necessary for future use (see decision tree below).

For example, a community center in a municipality prone to natural disasters has a capacity of 700 individuals even though only 200 individuals currently use the location on a regular basis. The unused portion still has operational capacity because the building has a dual purpose. It is operated as both a community center and as a shelter for the community in the event of a natural disaster. The currently unused capacity of 500 individuals is still required for the municipality's broader operational purpose and so the whole asset is included in the measurement of its current operational value.

Another example might be where the currently unused part of the asset is expected to be required in the near future. In circumstances where a school is built in a community that is rapidly growing, it may have been constructed to take the anticipated student numbers rather than the existing student numbers. The current unused portion is, therefore, required and is included in the measurement of the school's current operational value.

Where it is determined that the unused part of the asset has no operational purpose, an entity must determine whether it has an alternative use. When an alternative use is currently available, the relevant part of the asset is valued as a separate unit of account using an appropriate measurement basis. Where the unused part has no alternative use, it is included in the current operational value, but has no value.

Illustration of the Analysis of Unused Capacity



D.5. *Are restrictions on an asset's use or disposal taken into account in the current operational value of an asset?*

Yes. Many assets are subject to restrictions on their use or disposal. Such restrictions affect how the entity operates the asset. For example, a state may restrict the operation of a municipally run building, where the building is required to be operated as a library. When the entity measures the current operational value of the building, it measures the building on the basis that its use is restricted to being operated as a library.

D.6. *What factors are considered in identifying a modern equivalent asset, and what adjustments are necessary to reflect the current operational value of the existing asset?*

A modern equivalent should reflect the same characteristics as the asset being measured. If the equivalent asset has a different service potential from the asset being measured (although necessarily the same nature), comparison techniques are used to adjust for the difference between the service potential of the entity's asset being measured and the service potential of the equivalent reference asset.

In some circumstances a modern equivalent asset may not be reflective of the asset being measured. For example, it may be challenging to calculate the cost of a modern equivalent asset when estimating the current operational value of a heritage asset, such as an historical building. This is because the value of the asset extends beyond the mere facsimile of the existing asset. Replacing the heritage asset with a modern equivalent would not represent the heritage value of the asset and therefore would not be a suitable measurement.

The cost of a modern equivalent asset will reflect the amount that would be paid if the asset were developed or produced on the measurement date. However, there are factors that may result in the cost of the modern equivalent asset being different from that of creating the actual asset:

(a) Phasing of work – An asset may have been developed in phases. The cost of a modern equivalent asset would be based on a single-phase development, and measured at the cost at the measurement date. A single-phase development may still occur over an extended period of time.

(b) Borrowing costs – If the entity does not capitalize borrowing costs in accordance with IPSAS 5, *Borrowing Costs*, the entity disregards any financing costs in measuring the modern equivalent asset.

(c) Additional costs arising from extending an existing asset – These costs are not considered as the valuation will be of a modern equivalent asset.

(d) Contract variations – Additional construction costs because of contract variations should not be considered. The modern equivalent asset being valued will have the same service capacity as the existing asset in its existing use.

(e) Planning changes – Entities should consider whether planning consent would need to be obtained to construct the modern equivalent asset and take this into account.

It may not always be practicable to separately identify adjustments for each form of obsolescence. In particular, it may be difficult to distinguish between functional obsolescence and economic (or external) obsolescence. In such cases the adjustments for obsolescence may need to be considered collectively.

Section E: Use of Experts

E.1. *Who should carry out a valuation of assets or liabilities?*

Responsibility for obtaining a valuation of asset(s) or liability(ies) for financial accounting and reporting purposes rests with the preparer of the relevant financial statements. However, the valuation should be carried out by an individual (or organization) with the relevant expertise to provide a valuation that faithfully represents the values of the asset(s) or liability(ies) in the financial statements in accordance with IPSAS 1, *Presentation of Financial Statements*, paragraph 27.

The nature of the asset(s) or liability(ies) will guide the preparer of the financial statements in determining what field of expertise is required. For example: the measurement of liabilities arising under a pension scheme will require the input of an actuary; the measurement of medical plant and equipment assets will involve discussions with clinicians and procurement experts; those responsible for the management of vehicle fleets will need to be involved with the valuation of those fleets; the measurement of any legal claims against the entity (liabilities) will involve discussions with the entity's legal advisors; the valuation of infrastructure assets will involve engineers and surveyors; and the valuation of land and buildings will need to be carried out by appropriately qualified surveyors.

E.2. *What type of information will the valuation specialist require in order to carry out a valuation?*

The entity and the valuation specialist will need to discuss and agree the nature and scope of the valuation assignment prior to the assignment being undertaken. The information that the valuation specialist will require depends in part on the nature of the asset(s) or liability(ies) to be valued.

The information that the entity will need to give to the valuation specialist in order that the specialist can carry out a valuation will generally include some or all of the following.

(a) The purpose of the valuation. An entity might require a valuation of its assets or liabilities for a variety of reasons, and the purpose might determine the basis of valuation that the expert will adopt. The purpose of the valuation in applying this Standard is for inclusion in the entity's financial statements. The entity should inform the valuation specialist that the financial statements will be prepared in accordance with IPSAS; a copy of the relevant IPSAS (or the relevant extract) might usefully be supplied to and discussed with the valuation specialist. Any discussion between the entity and the valuation specialist should clarify what valuation work will be carried out and any specific disclosures required to accompany the valuation in order to ensure that the precise accounting needs are addressed.

(b) The asset(s) or liability(ies) being valued. The entity and the valuation specialist need to agree what asset(s) or liability(ies) are to be valued for inclusion in the financial statements. The valuation specialist will need:

(i) To understand the entity's legal interest in each asset or liability, and whether the whole or only part of the legal interest will be valued;

(ii) Information about the purpose of holding the asset or liability – for financial capacity or operational capacity – as the purpose may influence the valuation specialist in the selection of a valuation method (a measurement basis or technique);

(iii) Information about any improvements made by the entity, where the entity is a tenant of real estate, and whether these improvements would to be disregarded on renewals, or review of the lease, and whether the entity will need to reinstate the real estate to its original condition at the end of the tenancy;

(iv) To understand the degree of control an entity has over real estate or other property[10] that is owned by more than one entity and how any rights held by the other owning entities might restrict the ability of an entity to sell its interest in the real estate or other property;

(v) To ensure that, in the context of a portfolio of real estate, any grouping of those assets is appropriate;

(c) Assumptions. International or national standards applicable to the type of valuation may differentiate between assumptions that are consistent, or could be consistent, with the known facts at the date of the valuation, and where the assumptions used in the valuation differ from the known facts. When applicable, the entity and the valuation specialist will need to agree what assumptions should be used in the valuation, taking into account the attributes of the measurement basis; any assumptions should be included in the valuation report.

(d) The valuation date. The entity will need to inform the valuation specialist of the specific valuation date required.

(e) The reporting currency. The entity must inform the valuation specialist of the currency in which the valuation of the asset or liability will be expressed in the financial statements. This is particularly important where the asset(s) or liability(ies) being valued are spread across more than one jurisdiction or where cash flows associated with the asset(s) or liability(ies) are expressed in more than one currency. A typical example is the operation of overseas diplomatic activities.

(f) Limitations on the work of the valuation specialist. A valuation specialist will follow the appropriate international or national standards applicable to the type of valuation being undertaken. The methodology used by the valuation specialist might include any of the following:

(i) Physical inspections of the asset(s) or liability(ies) (particularly if the valuation specialist is undertaking a valuation of the specific asset(s) or liability(ies) for the first time).

(ii) Enquiries (both internal and external to the entity).

(iii) Analysis of the information provided by the entity or through enquiries, or from the results of any physical inspections.

The entity must inform the valuation specialist of any limitations or restrictions that will be imposed on the valuation assignment because these may affect the results of the valuation and will need to be recorded in the valuation report.

E.3. *What valuation bases does the valuation specialist use?*

[10] Other property is/are asset(s) or liability(ies) other than real estate as defined above.

Valuation specialists will use international or national standards appropriate for the valuation assignment. In general terms, the valuation specialist will use a market approach, income approach, or cost approach to determine the valuation, depending on the nature of the asset (or liability), the purpose, measurement objective and measurement basis, intended use and context of the particular assignment, and any jurisdictional statutory or other mandatory requirements.

E.4. *What sort of assumptions would it be reasonable for the valuation specialist to make when carrying out a valuation of real estate using the cost approach (often referred to as the depreciated replacement cost valuation method)?*

The nature of any assumptions must be consistent with the principles of the standard. Nevertheless, because the valuation is entity specific, it is important that the valuation specialist understands the entity's perspective about the real estate, and information that supports that perspective, when determining the assumptions. Assumptions are likely to take in to account the factors listed below, which the valuation specialist should determine with the entity when scoping the valuation assignment.

(a) The construction of the building is immediate.

Although buildings are constructed over time, when revalued under the cost approach the valuation specialist is required to assume the production or development of the asset is immediate as at the valuation date, rather than establish the costs over the likely period of construction, adjusted for the time value of money. The method of determining the base cost is a factor that the valuation specialist should determine with the entity.

(b) The existing location of the real estate.

Goods and services can be provided from various locations. For example, a hospital can be constructed in various locations to provide similar health care services to a group of citizens. When applying current operational value, the valuation specialist is required to assume the entity will continue to deliver goods and/or services from the same location in which the asset is currently situated.

(c) Whether or not the entity has a policy to capitalize borrowing costs.

Borrowing costs are included in the current operational value of the asset only if the entity capitalizes borrowing costs in accordance with IPSAS 5, *Borrowing Costs*. Where the entity does not capitalize borrowing costs, the valuation specialist reflects this policy choice in their assumptions and disregards any financing costs in measuring the modern equivalent asset.

(d) Expected demographic changes that affect the use of the building.

Demographic changes may be reasonably expected over the remaining life of the building. Such changes may indicate a reduction in the demand for services delivered using the building. This in turn might lead to a change in assumption about the ongoing use of the building or to a change in the specifications required for an efficient and effective replacement of the building. Conversely, demographic changes may support an increase in the expected demand for services delivered using the building, which may support a higher use for the asset than current demographics indicate. This may occur when a school is operating below capacity, but other development in the area suggests the school will operate at capacity when the development is complete. The effect of demographic changes on the replacement of the building is a factor that the valuation specialist should determine with the entity.

(e) Specialized features of the building.

A building might have a conventional, basic design that is similar to other buildings that are regularly bought and sold in the market, but on closer inspection have specialized features designed to meet the requirements of the entity. Examples of specialized features include the addition of security/safety enhancements to protect staff from physical attack in buildings used for the delivery of services directly to the public; stand-off land around embassies to protect the premises (and staff) from terrorist attack; or other adaptations to a building to enhance efficiency and effectiveness in delivering services. The requirement for specialized features associated with real estate assets is a factor that the valuation specialist should determine with the entity.

(f) The appropriateness of standard design lives and costings.

The construction industry will generally have standard design lives for different types of buildings (residential, commercial, or industrial); engineers will take a similar approach to certain types of built structures such as bridges or dams. In some cases, there may also be standard costings associated with property assets. The valuation specialist is likely to use these standard model assumptions in preparing the valuation unless there is information to suggest that those standards should be adjusted. Information to support appropriate design lives and costings are factors that the valuation specialist should determine with the entity.

E.5. *What is meant by a 'modern equivalent asset'?*

A modern equivalent asset is one that provides similar function and equivalent utility to the asset being valued, but which is of a current design and constructed or made using current cost-effective materials and techniques.

The concept of a modern equivalent asset is applied by a valuation specialist when valuing real estate under the cost approach (the depreciated replacement cost (DRC) valuation method in some international or national valuation standards).

The depreciated replacement cost method is based on the economic theory of substitution. The underlying theory is that the potential buyer in an exchange transaction would not pay any more to acquire the asset being valued than the cost of acquiring an equivalent new one. The technique involves assessing all the costs of providing a modern equivalent asset using pricing at the valuation date.

In order to assess the price that the entity would pay for the actual asset, valuation adjustments have to be made to the gross replacement cost of the modern equivalent asset to reflect the differences between it and the modern equivalent. These differences can reflect obsolescence factors such as the physical condition, the remaining economic life, the comparative running costs and the comparative efficiency and functionality of the actual asset. Land required for the modern equivalent asset will be separately assessed.

Under the cost approach, the valuation specialist will reflect all appropriate costs in the price the entity would pay for the asset; these will include the value of the land, infrastructure, design fees, finance costs (where appropriate) and developer profit that would be incurred by a participant in creating an equivalent asset.

If the entity does not capitalize borrowing costs under IPSAS 5, *Borrowing Costs*, the valuation expert needs to disregard financing costs.

The cost of the modern equivalent asset needs to be adjusted to reflect the condition, functionality and any other factors of obsolescence of the existing asset. The valuation specialist will consider, in consultation with the entity:

(a) Physical Obsolescence – Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful lives and their rate of deterioration.

(b) Functional Obsolescence – Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.

(c) Economic (or External) Obsolescence – Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. This may include, for example, capacity that is excess to the usage requirements of the existing asset.

E.6. Do I have to use a valuation expert external to my entity?

You do not have to use a specialist from another organization. Where an entity has the relevant, suitably qualified (that is, a member of an appropriate professional body) expertise available in-house, that specialist can be used to provide a valuation.

Whatever the source of the expertise, the name, qualifications and employing organization of the valuation specialist must be provided in the notes to the financial statements. This disclosure might be in the note on accounting policies or in the notes accompanying the detailed asset disclosures.

E.7. What can I expect from a valuation specialist's report?

International and national valuation standards require valuation specialists to include certain information in their reports. This will apply regardless of whether the valuation is carried out in-house or externally.

The information in a report will depend partly on what the entity and the valuation specialist agreed prior to the assignment, partly on the nature of the asset(s) or liability(ies) being valued, and partly on the standards framework used by the valuation specialist.

The information in the report will include, but will not necessarily be limited to:

(a) The name, qualifications, employing organization and any other relevant details of the valuation specialist.

(b) The name of the entity that commissioned the valuation and the name(s) of any other intended users of the report.

(c) The purpose of the valuation.

(d) The asset(s) or liability(ies) valued. For real estate assets, the report might include maps and plans depending on jurisdictional requirements, as well as the type of tenure (freehold or leasehold and, in the case of leasehold, details of the financial terms and of the responsibilities for repairs etc. under the lease).

(e) The valuation base(s) adopted.

(f) The valuation date and the date of the valuation report.

(g) A discussion of the approach the valuation specialist took in undertaking the assignment – for example, details of any physical inspections, interviews, review of documents, constraints placed on the assignment, etc.).

(h) Assumptions and special assumptions.

(i) Confirmation that the valuation has been undertaken in accordance with the relevant international or national valuation standards.

(j) The valuation amount(s) and the reasoning behind arriving at those amounts, with reference to the bases used. The report will provide separate valuation amounts for land and buildings on that land. It is likely that the valuation report will include separate valuation amounts for individual components of an asset where material in terms of the amounts or significant in terms of the asset itself. The report will include valuation amounts in both functional and reporting currencies (as appropriate).

(k) A discussion of any material uncertainties in the valuation amount(s) where this is necessary for a proper understanding of the valuation amount(s).

(l) For certain liabilities, the probability of the timing and amount of any payments to settle claims.

Comparison with IFRS 13

The fair value measurement requirements in IPSAS 46, *Measurement* are drawn primarily from IFRS 13, *Fair Value Measurement* (issued in May 2011, including amendments up to February 2023). The main differences between IPSAS 46 and IFRS 13 are as follows:

- IPSAS 46 provides guidance on historical cost, current operational value, cost of fulfilment and fair value. IFRS 13 only provides guidance on fair value.
- IPSAS 46 requires an entity to apply the measurement disclosure requirements in the relevant IPSAS. IFRS 13 includes all disclosures about fair value measurement.

Comparison with GFS

In developing IPSAS 46, *Measurement*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the measurements under IPSAS 46 and GFS will depend on the facts and circumstances of the transactions and carrying amounts at the end of the reporting period.
- On initial recognition, IPSAS 46 requires measurement at transaction price or deemed cost where appropriate. In GFS, as a general rule, all assets and liabilities should be measured at market prices, so both may result in the same valuations.
- IPSAS 46 requires capitalization of transaction costs for all assets, while GFS only requires capitalization of cost of ownership transfer for non-financial assets.
- On subsequent measurement, IPSAS 46 allows historical cost, current operational value, cost of fulfilment and fair value measurement bases. In GFS, as a general rule, all assets and liabilities should be measured at market prices, so the same valuation can result if the market approach is used as the measurement technique.

IPSAS 47—REVENUE

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS) ® 15 *Revenue from Contracts with Customers*, published by the International Accounting Standards Board (IASB®). Extracts from IFRS 15 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 Foundation.

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IPSAS 47—REVENUE

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 47, *Revenue* was issued in May 2023.

IPSAS 47, REVENUE

CONTENTS

Objective

1. The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions.

2. To meet the objective in paragraph 1, this Standard:

    (a) Requires an entity to consider the terms of the transaction, and all relevant facts and circumstances, to determine the type of revenue transaction; and

    (b) Sets out the accounting requirements to account for the revenue transaction.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for its revenue transactions. This Standard does not apply to:**

    (a) **Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26–31 of IPSAS 42, *Social Benefits* (the insurance approach);**

    (b) **A public sector combination within the scope of IPSAS 40, *Public Sector Combinations*;**

    (c) **The accounting for contributions from owners;**

    (d) **Lease contracts within the scope of IPSAS 43, *Leases*;**

    (e) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts[1];**

    (f) **Financial instruments and other contractual rights or obligations within the scope of IPSAS 41, *Financial Instruments*;**

    (g) **Rights or obligations arising from binding arrangements within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 32, *Service Concession Arrangements: Grantor*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits*, and IPSAS 40;**

    (h) **Non-monetary exchanges between entities in the same line of business to facilitate sales to resource providers or potential resource providers. For example, this Standard would not apply to a binding arrangement between two public sector entities that agree to an exchange of electricity to satisfy demand from their resource providers in different specified locations on a timely basis;**

    (i) **Gains from the sale of non-financial assets that are not an output of an entity's activities and are within the scope of IPSAS 16, *Investment Property*, IPSAS 45, *Property, Plant, and Equipment*[2], or IPSAS 31, *Intangible Assets* (see paragraph AG5);**

    (j) **Changes in the value of current and non-current assets arising from subsequent measurement;**

    (k) **Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and**

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1 There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on insurance contracts.

2 If this Standard is applied prior to IPSAS 45, then references to IPSAS 45 in this Standard should refer to IPSAS 17, *Property, Plant, and Equipment*.

(l) **The extraction of mineral resources.**

Definitions

4. **The following terms are used in this Standard with the meanings specified:**

For the purposes of this Standard, a binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG10–AG31 provide additional guidance.)

A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

A binding arrangement liability is an entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.

From the perspective of a resource recipient, a capital transfer is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. (Paragraph AG140 provides additional guidance.)

A compliance obligation is an entity's promise in a binding arrangement to either use resources[3] internally for distinct goods or services[4] or transfer distinct goods or services to a purchaser or third-party beneficiary.

A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.

Other compulsory contributions and levies is cash or another asset, paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.

A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. (Paragraph AG27 provides additional guidance.)

A resource provider is the party that provides a resource to the entity. (Paragraphs AG26–AG31 provides additional guidance.)

The stand-alone value (of a good or service) is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

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3 In this Standard, the term resource includes goods, services, and other assets, which may encompass cash or non-current assets.

4 In this Standard, references to goods and services, or goods or services are to be read as incorporating references to cash and non-current assets.

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 the entity, 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 laws and/or regulations.

A third-party beneficiary is an entity, household or individual who will benefit from a transaction made between other parties by receiving resources. (Paragraph AG29 provides additional guidance.)

For the purposes of this Standard, the transaction consideration is the amount of resources to which an entity expects to be entitled.

A transfer is a transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.

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

5. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the 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 are not considered revenue of the agent, as these amounts will not give rise to an increase in net assets/equity 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.

6. Where an entity incurs some cost in relation to revenue arising from a revenue transaction, the revenue is the gross inflow of future economic benefits or service potential, and any transfer of resources is recognized as a cost of the transaction. For example, if an entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (resource provider), those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are recognized in accordance with IPSAS 45.

Taxes

7. Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 4 as 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, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory 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 transactions without a binding arrangement. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

8. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer.

Identify the Revenue Transaction

9. Public sector revenues may arise from transactions without binding arrangements or with binding arrangements. The majority of revenue of governments and other public sector entities is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties.

10. **At inception, an entity should first consider whether it has entered into a revenue transaction with or without a binding arrangement**.

Identify whether a Binding Arrangement Exists

11. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of their obligations.**

12. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.

13. A binding arrangement includes both rights and obligations that are enforceable for two or more of the parties in the arrangement. Each party's enforceable rights and obligations within the binding arrangement are interdependent and inseparable.

14. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's customary practices. The practices and processes for establishing binding arrangements vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of the resource provider or the nature of the entity's promise in the binding arrangement).

15. An entity will apply the recognition and measurement criteria in this Standard as follows:

    (a) Revenue from transactions without binding arrangements are accounted for by applying paragraphs 18–55, with guidance specific to taxes in paragraphs 36–55; and

    (b) Revenue from transactions with binding arrangements are accounted for by applying paragraphs 56–147.

16. Paragraphs AG10–AG31 provide additional guidance on enforceability and binding arrangements.

Revenue from Transactions without Binding Arrangements

Recognition

17. **An entity's revenue transaction without a binding arrangement may confer rights and/or obligations. Any entity shall determine if:**

    (a) **Any of its rights in its revenue transaction without binding arrangements meet the definition of an asset in accordance with paragraphs 18–25; and**

    (b) **Any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 26–27.**

Analysis of the Initial Inflow of Resources

18. An entity may receive an initial inflow of resources from a revenue transaction without a binding arrangement. The entity recognizes this inflow of resources as an asset if it presently controls the resources (such as goods, services, or other assets) received as a result of past events, and the value of the asset can be measured reliably.[5] 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 achieving its service delivery or other objectives. A past event that gives the entity control of a resource 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 – 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.

19. 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 AG143, entities may, but are not required to, recognize services in-kind.

20. Each type of inflow of resources is analyzed and accounted for separately. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may give rise to an inflow of resources. In some cases, gaining control of the inflow of resources may also carry with it obligations that the entity may recognize as a liability until the obligations are satisfied (in accordance with paragraph 26).

Right to an Inflow of Resources

21. When an entity has not received an inflow of resources for a revenue transaction without a binding arrangement, it should consider whether it has a right to receive an inflow of goods, services, or other assets which may be a resource that meets the definition of an asset and is to be recognized as an asset. The entity bases this determination on the facts and circumstances of its revenue transaction, its ability to enforce this right through legal or equivalent means, its past experience with similar types of flows of resources, and its expectations regarding the resource provider's ability and intention to provide the resources.

22. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled by an entity.[6]

23. In circumstances where an agreement is required before resources can be transferred, an entity will not identify the resources as controlled until such time as the entity's right in the agreement is enforceable, because the entity cannot exclude or regulate the access of the resource provider 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 resource provider's access to those resources.

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[5] 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, *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

[6] For example, if a public school were destroyed by a 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.

Contingent Assets

24. 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).

Subsequent Consideration of Asset Recognition Criteria

25. An entity shall continue to assess the revenue transaction, and any inflow of resources received or to be received, to determine whether the criteria for asset recognition in paragraph 21 are subsequently met.

Existence and Recognition of a Liability

26. An entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events.

27. For a liability to exist, it is necessary that the entity cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An entity should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the entity does not satisfy its obligation(s).

28. An obligation that meets the definition of a liability shall be recognized as a liability when, and only when, the amount of the obligation can be measured reliably.

Recognition of Revenue Transactions without Binding Arrangements

29. **When an entity recognizes an inflow or right to an inflow of resources as an asset for a revenue transaction without a binding arrangement in accordance with paragraphs 18–25, it recognizes revenue based on the nature of the requirements in its revenue transaction. An entity shall recognize revenue from a transaction without a binding arrangement:**

    (a) **When (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or**

    (b) **Immediately if the entity does not have an enforceable obligation associated with the inflow of resources.**

Measurement

Measurement of Assets from an Inflow of Resources

30. **An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. To determine the transaction consideration for non-cash consideration, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its current value, in accordance with the relevant IPSAS.**

31. After initial recognition, an entity shall subsequently measure:

    (a) A receivable asset:

        (i) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or

        (ii) Not within the scope of IPSAS 41 on the same basis as a financial asset in accordance with IPSAS 41, by analogy.

    (b) All other assets as prescribed by the applicable IPSAS.

Measurement of Liabilities

32. **The amount recognized as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized.**

33. 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 shall 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.

Measurement of Revenue Transactions without Binding Arrangements

34. **Revenue from transactions without a binding arrangement shall be measured at the amount of the increase in net assets (e.g., the consideration received or receivable) recognized by the entity.**

35. When, as a result of a revenue transaction without a binding arrangement, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 30, subject to any liability recognized in accordance with paragraphs 26–28.

Taxes

36. **An entity shall recognize an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met.**

37. Tax laws and/or regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and/or 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/or 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 and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

38. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of past events (taxable events) 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 they are presently controlled by the entity as a result of past events and their value can be measured reliably. The entity should consider evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

39. 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 taxes 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.

40. 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.

41. Taxes are a transaction without a binding arrangement because the taxpayer transfers resources to the government, and the government is not required to transfer distinct goods or services to the taxpayer or a third-party beneficiary in return. While the taxpayer may benefit from a range of social policies established by the government, the taxpayer has no control over which benefits they receive as a result of the payment of taxes.

Triggering Event for Taxes and Other Compulsory Contributions and Levies

42. Similar types of taxes are levied in many jurisdictions. The entity analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied.

43. Similar types of other compulsory contributions and levies occur in many jurisdictions. The entity analyzes the law and/or regulation relating to other compulsory contributions and levies in its own jurisdiction to determine what event the government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:

(a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);

(b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and

(c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales).

Advance Receipts of Taxes and Other Compulsory Contributions and Levies

44. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 36, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the triggering event for other compulsory contributions and levies 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 or other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied, notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognized until the triggering event for other compulsory contributions and levies occurs. When the triggering event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions

45. Assets arising from taxation transactions are measured in accordance with paragraph 30. An entity shall consider the terms of the transaction and its customary practices to determine the transaction consideration.

Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity, which is consistent with the most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts). 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.

46. Where there is a separation between the timing of the taxable event and the collection of taxes, public sector entities may measure assets arising from these transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy 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, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:

(a) The tax law and/or regulation 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 and/or regulation 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/or regulations (or laws and/or regulations relating to other compulsory contributions and levies) and collecting all the taxes, contributions and levies legally due to the government may outweigh the benefits received;

(f) The tax law and/or regulation permitting taxpayers to defer payment of some taxes; and

(g) A variety of circumstances particular to individual taxes and jurisdictions.

47. 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*.

48. In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event has occurred. This may occur if a tax base is volatile and a 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 the recognition of an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a deceased individual's large 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.

Measurement of Taxes with Collection Uncertainty

49. The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

50. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved,

an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of consideration is highly susceptible to factors outside the entity’s influence. Those factors may include volatility in a market, the judgment or actions of third parties.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

(c) The entity’s experience (or other evidence) with similar types of arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar arrangements in similar circumstances.

(e) The transaction has a large number and broad range of possible consideration amounts.

Expenses Paid Through the Tax System and Tax Expenditures

51. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

52. 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, by 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.

53. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

54. 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.

55. 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 entities 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.

Revenue from Transactions with Binding Arrangements

Recognition

Accounting for the Binding Arrangement

56. **An entity shall account for a binding arrangement using the binding arrangement accounting model if all of the following criteria are met:**

    (a) **The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;**

    (b) **The entity can identify each party's rights under the binding arrangement;**

    (c) **The entity can identify the payment terms for the satisfaction of each identified compliance obligation;**

    (d) **The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement) (paragraphs AG32–AG34 provide additional guidance for binding arrangements that require a transfer of distinct goods or services to a purchaser or third-party beneficiary); and**

    (e) **It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement (paragraphs AG35–AG39 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the resource provider's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the transaction consideration stated in the binding arrangement if the consideration is variable because the entity may offer the resource provider a price concession (see paragraph 115).**

57. If a binding arrangement meets the criteria in paragraph 56 at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a resource provider's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled for the satisfaction of any remaining compliance obligations in the binding arrangement.

58. When a binding arrangement does not meet all of the criteria in paragraph 56, the entity shall recognize any consideration received as revenue only when either of the following events has occurred:

    (a) The entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or

    (b) The binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.

    An entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 56 are subsequently met.

59. For the purpose of applying this Standard, an arrangement is not a binding arrangement if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unsatisfied binding arrangement without compensating the other party (or parties).

60. A binding arrangement is wholly unsatisfied if both of the following criteria are met:

(a) The entity has not yet started satisfying any of its compliance obligations in the binding arrangement; and

(b) The resource provider has not yet paid, and is not yet obligated to pay, any consideration to the entity for the entity satisfying any of its compliance obligations in the binding arrangement.

61. If an entity has determined that its revenue arises from a transaction with a binding arrangement that is to be accounted for using the binding arrangement accounting model, the entity shall also consider whether it should be combined with other binding arrangements, and whether there are any modifications to its binding arrangement.

Combination of Binding Arrangements

62. An entity shall combine two or more binding arrangements entered into at or near the same time with the same resource provider (or related parties of the resource provider) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

(a) The binding arrangements are negotiated as a package with a single objective;

(b) The amount of consideration to be paid in one binding arrangement depends on the consideration or performance of the other binding arrangement; or

(c) The promises in the binding arrangements (or some promises in each of the binding arrangements) are a single compliance obligation in accordance with paragraphs 68–77.

Modifications to a Binding Arrangement

63. A modification to a binding arrangement is a change in the scope or consideration (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

64. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or consideration (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration, an entity shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 113–117 on estimating variable consideration and paragraphs 119–121 on constraining estimates of variable consideration.

65. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:

(a) The scope of the binding arrangement increases because of the addition of promises that are distinct (in accordance with paragraphs 73–77); and

(b) The consideration of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone values of the additional promises and any appropriate adjustments to that value to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone value of an additional good or service for a discount that the resource provider receives, because it is not necessary for the entity to incur the related costs that it would incur when providing a similar good or service to a new resource provider.

66. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall account for the promises not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promises) in whichever of the following ways is applicable:

(a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining promises are distinct from the promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining compliance obligations (or to the remaining promises in a single compliance obligation identified in accordance with paragraph 68(b)) is the sum of:

(i) The consideration promised by the resource provider (including amounts already received from the resource provider) that was included in the estimate of the transaction consideration and that had not been recognized as revenue; and

(ii) The consideration promised as part of the modification to a binding arrangement.

(b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining promises are not distinct and, therefore, form part of a single compliance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction consideration, and on the entity's measure of progress towards complete satisfaction of the compliance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement (i.e., the adjustment to revenue is made on a cumulative catch-up basis).

(c) If the remaining promises are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) compliance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Duration of a Binding Arrangement

67. Some binding arrangements may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.

Identifying Compliance Obligations in a Binding Arrangement

68. **At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a resource provider and shall identify as a compliance obligation each promise to use resources internally for, or transfer to an external party or parties (i.e., the purchaser (the resource provider) or third-party beneficiary), either:**

(a) **A good or service (or a bundle of goods or services) that is distinct; or**

(b) **A series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use internally or transfer to the purchaser or third-party beneficiary (see paragraph 70).**

Paragraphs AG43–AG56 provide additional guidance on identifying compliance obligations.

69. **A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid.**

70. A series of distinct goods or services has the same pattern of use internally or transfer to the purchaser or third-party beneficiary if both of the following criteria are met:

(a) Each distinct good or service in the series would meet the criteria in paragraph 92 or 95 to be a compliance obligation satisfied over time; and

(b) In accordance with paragraphs 98–99, the same method would be used to measure the entity's progress towards complete satisfaction of the compliance obligation.

Promises to Use Resources

71. A binding arrangement generally explicitly states the goods or services that an entity promises to either obtain for use internally or transfer to a purchaser or third-party beneficiary. However, the compliance obligations identified in a binding arrangement may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement may also include promises that are implied by an entity's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the resource provider that the entity will perform, and are of sufficient specificity for them to be able to hold the entity accountable.

72. Compliance obligations do not include activities that an entity must undertake to satisfy a binding arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding arrangement. For example, an entity may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not use a resource internally for a service or transfer a service to a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a compliance obligation.

Identifying Distinct Promises to Use Resources

73. A compliance obligation is a unit of account in a revenue transaction with a binding arrangement that represents a distinct promise or group of promises to which recognition criteria and measurement concepts are applied. A good or service that is promised in a binding arrangement is distinct if both of the following criteria are met:

(a) The party receiving the good or service can generate economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to that party (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to use resource internally for the good or service or transfer the good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise is distinct within the context of the binding arrangement).

See paragraphs AG53–AG56 for specific guidance on identifying distinct promises to use resources for another party.

74. An entity determines if the party receiving the good or service is itself, resource provider (purchaser), or a specified third-party beneficiary by considering the nature of its compliance obligation.

(a) In a compliance obligation where an entity promises to use resources internally for a distinct good or service, the entity itself is the recipient of the goods or services.

(b) In a compliance obligation where an entity promises to use resources to transfer a distinct good or service to a purchaser or third-party beneficiary, the recipient of the goods or services is either the purchaser, or the third-party beneficiary.

See paragraph AG27 for additional guidance.

75. A party can generate the economic benefits or service potential from the good or service in accordance with paragraph 73(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a party may be able to generate economic benefits or service potential from the good or service on its own. For other goods or services, a party may be able to generate economic benefits or service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the party has already obtained from the entity (including goods or services that the entity will use internally or that will be transferred to the purchaser or third-party beneficiary, under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the party can generate economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly internally uses or provides a good or service separately would indicate that a party can generate economic benefits or service potential from the good or service on its own or with other readily available resources.

76. In assessing whether an entity's promises to use resources internally for goods or services or transfer goods or services to the purchaser or third-party beneficiary are separately identifiable in accordance with paragraph 73(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is a promise to use resources in individually specific ways rather than in a combined manner. Factors that indicate that two or more promises are not separately identifiable include, but are not limited to, the following:

(a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the resource provider has entered into binding arrangements. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the resource provider. A combined output or outputs might include more than one phase, element or unit.

(b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.

(c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to satisfy its promise by using each of the goods or services internally, or transferring each of the goods or services, independently.

77. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all of the goods or services promised in a binding arrangement as a single compliance obligation.

Initial Recognition of Revenue Transactions with a Binding Arrangement

78. When a binding arrangement is wholly unsatisfied in accordance with paragraph 60, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. The recognition of assets, liabilities, and revenues commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

79. Where a binding arrangement becomes onerous, an entity shall account for the expected deficit in accordance with IPSAS 19. Paragraphs AG57–AG58 provide additional guidance on unsatisfied binding arrangements.

Analysis of the Initial Inflow of Resources

80. An entity may receive or have the right to an inflow of resources arising from a revenue transaction with a binding arrangement before or after it begins satisfying its compliance obligations. An entity should apply paragraphs 18–25, and recognize an inflow of resources from a revenue transaction with a binding arrangement as an asset when the definition of, and the recognition criteria for, an asset are met.

Existence and Recognition of a Liability

81. Public sector entities typically receive resources from governments or other entities. When an entity recognizes an asset for an inflow of resources, it shall consider if there are compliance obligations related to the inflow which result in the recognition of a liability.

82. A compliance obligation gives rise to a liability when:

    (a) The entity has received resources associated with its unsatisfied or partially unsatisfied compliance obligation in a binding arrangement; and

    (b) The resource provider can enforce the binding arrangement, if the entity does not satisfy the compliance obligation(s) associated with the consideration received, by requiring the entity to transfer resources to another party in compliance with the terms of the binding arrangement.

    See additional guidance in paragraphs AG59–AG62.

83. In accordance with paragraph 27, a liability exists if the entity cannot avoid a transfer of resources as a consequence of past events, and the transfer of resources is probable. An entity should consider the facts and circumstances relating to the binding arrangement to determine if the other party or parties (which is typically the resource provider) are able to enforce their rights and impose a consequence that requires an incremental transfer of resources as a result of the entity's non-compliance (i.e., not satisfying its compliance obligation(s)).

84. As an administrative convenience, a transfer of resources as a consequence of the entity not satisfying its compliance obligations may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The 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 transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

85. If an entity receives resources prior to both the parties agreeing to the terms of the arrangement and it is expected that a binding arrangement will be entered into, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.

86. A compliance obligation that meets the definition of a liability shall be recognized as a liability when, and only when the amount of the obligation can be measured reliably. The entity shall continue to recognize the liability until one of the events in paragraph 58 is subsequently met.

Recognition of Revenue Transactions with a Binding Arrangement

87. **When an entity receives an inflow of resources in a revenue transaction with a binding arrangement that meets the definition of and recognition criteria for, an asset in accordance with paragraphs 18–25, the entity shall recognize:**

(a) **Revenue for any satisfied compliance obligations in respect of the same inflow; and**

(b) **A liability for any unsatisfied compliance obligations in respect of the same inflow.**

88. **The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognize revenue from a transaction with a binding arrangement when (or as) the entity satisfies a compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement. The entity shall reduce the carrying amount of any liability that was recognized in accordance with paragraphs 81–86 by an equal amount. Paragraphs AG63–AG95 provide additional guidance on the satisfaction of compliance obligations.**

89. **An entity satisfies a compliance obligation by using resources internally for a promised good or service (i.e., an asset), or to transfer a promised good or service to a purchaser or third-party beneficiary. An asset is used internally or transferred when (or as) the entity receiving the asset obtains control of that asset.**

90. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, a resource (see paragraph 18). The economic benefits or service potential embodied in a resource are the potential cash flows (inflows or savings in outflows), or the capability to provide services that contribute to achieving the entity's objectives, that can be obtained directly or indirectly in many ways, such as by:

(a) Using the resource to provide internal training;

(b) Using the resource to produce goods or provide services (including public services);

(c) Using the resource to enhance the value of other assets;

(d) Using the resource to settle liabilities or reduce expenses;

(e) Selling or exchanging the resource;

(f) Pledging the resource to secure a loan; and

(g) Holding the resource.

91. For each compliance obligation identified in accordance with paragraphs 68–77, an entity shall determine at the inception of the binding arrangement whether it satisfies the compliance obligation over time (in accordance with paragraphs 92–93 or paragraphs 95–96) or satisfies the compliance obligation at a point in time (in accordance with paragraph 94 or paragraph 97). If the entity does not satisfy a compliance obligation over time, the compliance obligation is satisfied at a point in time.

Compliance Obligations to Use Resources for Goods or Services Internally

Satisfied Over Time

92. An entity obtains control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:

(a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or

(c) The entity has an enforceable right to consideration for performance completed to date (see paragraph 93).

93. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to consideration for any compliance obligation completed to date in accordance with paragraph 92(c). The right to consideration for any compliance obligation completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the entity must be entitled to an amount that at least compensates the entity for any compliance obligation completed to date if the binding arrangement is terminated by the resource provider or another party with enforceable rights and obligations in the binding arrangement for reasons other than the entity's failure to perform as promised. Paragraphs AG67–AG71 provide guidance for assessing the existence and enforceability of a right to consideration and whether an entity's right to consideration would entitle the entity to be paid for any compliance obligation completed to date.

Satisfied at a Point in Time

94. If a compliance obligation is not satisfied over time in accordance with paragraphs 92–93, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which the entity obtains control of a promised asset and satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90.

Compliance Obligations to Transfer Goods or Services to Another Party (Purchaser or Third-Party Beneficiary)

Satisfied Over Time

95. An entity transfers control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:

(a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG73–AG74);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG75); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 96) and the entity has an enforceable right to consideration for performance completed to date (see paragraph 93).

96. An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a

modification to a binding arrangement that substantively changes the compliance obligation. Paragraphs AG76–AG78 provide guidance for assessing whether an asset has an alternative use to an entity.

Satisfied at a Point in Time

97. If a compliance obligation is not satisfied over time in accordance with paragraphs 95–96, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which a purchaser or third-party beneficiary obtains control of a promised asset and the entity satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90 (and AG183–AG185 if the entity has a repurchase agreement). In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to consideration for the asset — if a resource provider is presently obligated to pay for an asset, then that may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange.

(b) The purchaser or third-party beneficiary has legal title to the asset — legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the purchaser or third-party beneficiary has obtained control of the asset. If an entity retains legal title solely as protection against the resource provider's failure to pay, those rights of the entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset — the purchaser's or third-party beneficiary's physical possession of an asset may indicate that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a resource provider or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the resource provider controls. Paragraphs AG183–AG196, AG197–AG198, and AG199–AG202 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The purchaser or third-party beneficiary has the significant risks and rewards of ownership of the asset — the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate compliance obligation in addition to the compliance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a resource provider but not yet satisfied an additional compliance obligation to provide maintenance services related to the transferred asset.

(e) The resource provider has accepted the asset — the resource provider's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. To evaluate the effect of an acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG82–AG85.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

98. For each compliance obligation satisfied over time in accordance with paragraphs 92–93 (for compliance obligations to use goods or services internally) or paragraphs 95–96 (for compliance obligations to transfer goods or services to another party), an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that compliance obligation. The objective when measuring progress is to depict an entity's performance to satisfy its compliance obligation.

99. An entity shall apply a single method of measuring progress for each compliance obligation satisfied over time and the entity shall apply that method consistently to similar compliance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a compliance obligation satisfied over time.

Methods for Measuring Progress

100. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG86–AG95 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a compliance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures an entity is to perform or incur, respectively.

101. When applying a method for measuring progress for a specific compliance obligation, an entity shall exclude from the measure of progress any goods or services not directly related to that compliance obligation:

(a) For a compliance obligation where the entity promises to use resources internally for a distinct good or service, the entity shall exclude from the measure of progress any goods or services for which the entity does not retain control. Conversely, an entity shall include in the measure of progress any goods or services for which the entity retains control when satisfying that compliance obligation; and

(b) For a compliance obligation where the entity promises to use resources to transfer a distinct good or service to another party, the entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to another party (i.e., a purchaser or third-party beneficiary). Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to another party (i.e., a purchaser or third-party beneficiary) when satisfying that compliance obligation.

102. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the satisfaction of the compliance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.

Reasonable Measures of Progress

103. An entity shall recognize revenue for a compliance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the compliance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a compliance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

104. In some circumstances (for example, in the early stages of a binding arrangement), an entity may not be able to reasonably measure the outcome of a compliance obligation, but the entity expects to recover the costs incurred in satisfying the compliance obligation. In those circumstances, the entity shall recognize revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the compliance obligation.

Subsequent Consideration of Asset Recognition Criteria

105. When an inflow of resources from a binding arrangement within the scope of this Standard does not meet the criteria in paragraph 18, and an entity subsequently receives an inflow of resources from the resource provider, the entity shall recognize the inflow received as revenue only when either of the following events has occurred:

(a) The entity has no unsatisfied compliance obligation; or

(b) The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

Measurement

Measurement of Assets from an Inflow of Resources

106. **An asset in a revenue transaction with a binding arrangement shall initially be measured by the entity at its transaction consideration as at the date in which the criteria for asset recognition are satisfied (see paragraphs 109–132). An entity shall subsequently measure the asset in accordance with paragraph 31.**

Measurement of Liabilities

107. The amount recognized as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized for the inflow of resources. An entity shall apply paragraph 33 in determining its best estimate of the liability.

Measurement of Revenue Transactions with Binding Arrangements

108. **When (or as) a compliance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 119–121) that is allocated to that compliance obligation.**

Determining the Transaction Consideration

109. An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the amount of resources to which an entity expects to be entitled in the binding arrangement for satisfying its compliance obligations, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both.

110. Credit risk is not considered when determining the amount the entity expects to be entitled to. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41.

111. The nature, timing and amount of consideration affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:

(a) Variable consideration (see paragraphs 113–117 and 122);

(b) Constraining estimates of variable consideration (see paragraphs 119–121);

(c) The existence of a significant financing component in the binding arrangement (see paragraphs 123–128);

(d) Non-cash consideration (see paragraphs 129–132); and

(e) Consideration payable to a resource provider (see paragraphs AG104–AG106).

112. For the purpose of determining the transaction consideration, an entity shall assume that the consideration will be received in accordance with the terms of the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

113. If the consideration in the binding arrangement includes a variable amount, an entity shall estimate the amount of the consideration to which the entity expects to collect from the resource provider.

114. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if a fixed amount is promised as a performance bonus on achievement of a milestone specified in the binding arrangement.

115. The variability relating to the consideration may be explicitly stated in laws, regulations, or a binding arrangement. In addition to the terms of laws, regulations, or a binding arrangement, the consideration is variable if either of the following circumstances exists:

(a) The resource provider has a valid expectation arising from an entity's customary practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the amount stated in the binding arrangement or applicable legislation. That is, it is expected that the entity will offer or accept a reduced amount due to a concession. Depending on the jurisdiction, sector or resource provider, this offer may be referred to as a discount, rebate, refund or credit; or

(b) Other facts and circumstances indicate that the entity's intention, when entering into the arrangement with the resource provider, is to offer a price concession to the resource provider.

Paragraph AG37 provides additional guidance on implicit price concessions.

116. An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it expects to be entitled to:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics; or

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, an entity either completes construction of infrastructure on schedule or not).

117. An entity shall apply one method consistently when estimating the effect of uncertainty on an amount of variable consideration to which the entity expects to be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses to estimate the amount receivable. In cases where the binding arrangement requires the entity to transfer distinct goods or services to another party, the information would typically be similar to the

information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund Liabilities

118. An entity may enter into a binding arrangement which includes a right of return. In these cases, the entity shall recognize a refund liability if the entity receives consideration from a resource provider and expects to refund some or all of that consideration to the resource provider relating to a transfer of distinct goods or services to a purchaser or third-party beneficiary. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction consideration). The refund liability (and corresponding change in the transaction consideration and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs AG96–AG103.

Constraining Estimates of Variable Consideration

119. An entity shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 116 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

120. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the consideration (when it is non-cash) or the promised good or service.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

(c) The entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.

(e) The binding arrangement has a large number and broad range of possible consideration amounts.

121. An entity shall apply paragraphs AG180–AG182 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

122. At the end of each reporting period, an entity shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable inflow is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction consideration in accordance with paragraphs 144–147.

The Existence of a Significant Financing Component in the Binding Arrangement

123. In determining the transaction consideration, an entity shall adjust the amount of consideration for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the resource provider or the entity with a significant benefit of financing the binding arrangement. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the terms agreed to by the parties to the binding arrangement or applicable laws and/or regulations.

124. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize revenue at an amount that reflects the consideration that a resource provider would have transferred if the resource provider had transferred cash (i.e., the cash price) for those goods or services promised in the compliance obligation when (or as) the entity uses them (internally) or transfers them (to the purchaser or third-party beneficiary). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

(a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services in the compliance obligation; and

(b) The combined effect of both of the following:

(i) The expected length of time between when the entity satisfies the compliance obligation (if any) and when the resource provider transfers the consideration; and

(ii) The prevailing interest rates in the relevant market.

125. Notwithstanding the assessment in paragraph 124, a binding arrangement with a resource provider would not have a significant financing component if any of the following factors exist:

(a) The resource provider made the transfer in advance and the timing of when the compliance obligation is satisfied is at the discretion of the resource provider.

(b) A substantial amount of the inflow promised by the resource provider is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the resource provider or the entity.

(c) The difference between the consideration and the cash price of the transfer (as described in paragraph 124) arises for reasons other than the provision of finance to either the resource provider or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the terms might provide the entity or the resource provider with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

126. As a practical expedient, an entity need not adjust the consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the entity satisfies the compliance obligation and when the resource provider transfers the consideration will be one year or less.

127. To meet the objective in paragraph 124 when adjusting the consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its resource provider at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the resource provider or the entity, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal

amount of the consideration to the price that the resource provider would transfer when (or as) the compliance obligation is satisfied (where applicable). After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the resource provider's credit risk).

128. An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement.

Non-Cash Consideration

129. To determine the transaction consideration for binding arrangements in which a resource provider promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its current value, in accordance with the relevant IPSAS, as at the time when the criteria for asset recognition are satisfied.

130. If an entity cannot reasonably estimate the current value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone value of the goods or services that are required to be used internally or transferred to the purchaser or third-party beneficiary (or class of resource provider) for the consideration.

131. The current value of the non-cash consideration may vary because of the form of the consideration. If the current value of the non-cash consideration promised by a resource provider varies for reasons other than only the form of the consideration, an entity shall apply the requirements in paragraphs 119–121.

132. If a resource provider contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's satisfaction of the binding arrangement, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the resource provider.

Allocating the Transaction Consideration to Compliance Obligations

133. **The objective when allocating the transaction consideration is for an entity to allocate the transaction consideration to each compliance obligation in the amount that depicts the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations.**

134. To meet the allocation objective, an entity shall allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis in accordance with paragraphs 136–140, except as specified in paragraphs AG107–AG109 (for allocating discounts) and paragraphs 141–143 (for allocating consideration that includes variable amounts). The amount of revenue recognized shall be a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total compliance obligations satisfied.

135. Paragraphs 136–143 do not apply if a binding arrangement has only one compliance obligation. However, paragraphs 141–143 may apply if an entity promises to use or transfer a series of distinct goods or services identified as a single compliance obligation in accordance with paragraph 68(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Values

136. To allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis, an entity shall determine the stand-alone value at the inception of the binding arrangement of the distinct good or service underlying each compliance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone values.

137. The stand-alone value is the price of a good or service that is required to be used internally or provided separately to a purchaser or third-party. The best evidence of a stand-alone value is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar resource providers. In a binding arrangement, the stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone value of that good or service.

138. If a stand-alone value is not directly observable, an entity shall estimate the stand-alone value at an amount that would result in the allocation of the transaction consideration meeting the allocation objective in paragraph 133. When estimating a stand-alone value, an entity shall consider all information (including entity-specific factors, information about the resource provider or class of resource provider, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

139. Suitable methods for estimating the stand-alone value of a good or service include, but are not limited to, the following:

(a) Adjusted market assessment approach—an entity could evaluate the market in which it uses or provides goods or services and estimate the price that other entities in that market would be willing to pay for those goods or services, or similar goods or services, and adjusting those prices as necessary to reflect the entity's costs and margins.

(b) Expected cost approach—an entity could forecast its expected costs of satisfying a compliance obligation and, if applicable, add an appropriate margin for that good or service.

(c) Residual approach—an entity may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable stand-alone values of other goods or services to be used or transferred in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 138, the stand-alone value of a good or service only if one of the following criteria is met:

(i) The entity uses or provides the same good or service to different parties (at or near the same time) for a broad range of amounts (i.e., the price is highly variable because a representative stand-alone value is not discernible from past transactions or other observable evidence); or

(ii) The entity has not yet determined a price for that good or service and the good or service has not previously been provided on a stand-alone basis (i.e., the price is uncertain).

140. A combination of methods may need to be used to estimate the stand-alone values of the goods or services to be used or transferred in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone values. For example, an entity may use a residual approach to estimate the aggregate stand-alone value for those goods or services with highly variable or uncertain stand-alone values and then use another method to estimate the stand-alone values of the individual goods or services relative to that estimated aggregate stand-alone value determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone value of each good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone values would be consistent with the allocation objective in paragraph 133 and the requirements for estimating stand-alone values in paragraph 138.

Allocation of Variable Consideration

141. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

(a) One or more, but not all, compliance obligations in the binding arrangement (for example, a bonus may be contingent on an entity using or transferring a promised good or service within a specified period of time); or

(b) One or more, but not all, distinct goods or services in a series of distinct goods or services that forms part of a single compliance obligation in accordance with paragraph 68(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

142. An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a compliance obligation or to a distinct good or service that forms part of a single compliance obligation in accordance with paragraph 68(b) if both of the following criteria are met:

(a) The terms of a variable payment relate specifically to the entity's efforts to satisfy the compliance obligation or use or transfer the distinct good or service (or to a specific outcome from satisfying the compliance obligation or using or transferring the distinct good or service); and

(b) Allocating the variable amount of consideration entirely to the compliance obligation or the distinct good or service is consistent with the allocation objective in paragraph 133 when considering all of the compliance obligations and payment terms in the binding arrangement.

143. The allocation requirements in paragraphs 133–140 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 142.

Changes in the Transaction Consideration

144. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled for satisfying its compliance obligation.

145. An entity shall allocate to the compliance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction consideration to reflect changes in stand-alone values after the inception of the binding arrangement. Amounts allocated to a satisfied compliance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction consideration changes.

146. An entity shall allocate a change in the transaction consideration entirely to one or more, but not all, compliance obligations or distinct goods or services in a series that forms part of a single compliance obligation in accordance with paragraph 68(b) only if the criteria in paragraph 142 on allocating variable consideration are met.

147. An entity shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 63–66. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 144–146 to allocate the change in the transaction consideration in whichever of the following ways is applicable:

(a) An entity shall allocate the change in the transaction consideration to the compliance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 66(a).

(b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall allocate the change in the transaction consideration to the compliance obligations in the modified binding arrangement (i.e., the compliance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Other Assets from Revenue Transactions with Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

148. **An entity shall recognize as an asset the incremental costs of obtaining a binding arrangement if the entity expects to recover those costs.**

149. The incremental costs of obtaining a binding arrangement are those costs that an entity incurs to obtain a binding arrangement that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission).

150. Costs to obtain a binding arrangement that would have been incurred regardless of whether the binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the resource provider regardless of whether the binding arrangement is obtained.

151. As a practical expedient, an entity may recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

Costs to Fulfill a Binding Arrangement

152. **If the costs incurred in fulfilling a binding arrangement are not within the scope of another Standard (for example, IPSAS 12, *Inventories*, IPSAS 31, or IPSAS 45), an entity shall recognize an asset from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria:**

    (a) **The costs relate directly to a binding arrangement or to an anticipated binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing binding arrangement or costs of designing an asset to be transferred under a specific binding arrangement that has not yet been approved);**

    (b) **The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) compliance obligations in the future; and**

    (c) **The costs are expected to be recovered.**

153. For costs incurred in fulfilling a binding arrangement that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

154. Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:

    (a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to a purchaser or third-party beneficiary);

    (b) Direct materials (for example, supplies used in providing the promised services to a purchaser or third-party beneficiary);

    (c) Allocations of costs that relate directly to the binding arrangement or to activities within the binding arrangement (for example, costs of management and supervision, insurance and depreciation of tools, equipment and right-of-use assets used in fulfilling the binding arrangement);

    (d) Costs that are explicitly chargeable to the resource provider under the binding arrangement; and

(e) Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).

155. An entity shall recognize the following costs as expenses when incurred:

(a) General and administrative costs (unless those costs are explicitly chargeable to the resource provider under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph 154);

(b) Costs of wasted materials, labor or other resources to fulfill the binding arrangement that were not reflected in the price of the binding arrangement;

(c) Costs that relate to satisfied compliance obligations (or partially satisfied compliance obligations) in the binding arrangement (i.e., costs that relate to past fulfillment); and

(d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied compliance obligations or to satisfied compliance obligations (or partially satisfied compliance obligations).

Amortization and Impairment

156. An asset recognized in accordance with paragraph 148 or 152 shall be amortized on a systematic basis that is consistent with the satisfaction of the compliance obligation to which the asset relates. The asset may relate to promises to be satisfied under a specific anticipated binding arrangement (as described in paragraph 152(a)).

157. An entity shall update the amortization to reflect a significant change in the entity's expected timing of the satisfaction of the compliance obligation to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.

158. An entity shall recognize an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognized in accordance with paragraph 148 or 152 exceeds:

(a) The remaining amount of consideration that the entity expects to receive for the satisfaction of the compliance obligations to which the asset relates; less

(b) The costs that relate directly to satisfying the compliance obligations and that have not been recognized as expenses (see paragraph 154).

159. For the purposes of applying paragraph 158 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction consideration (except for the requirements in paragraphs 119–121 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the resource provider's credit risk.

160. Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 148 or 152, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 31, and IPSAS 45). After applying the impairment test in paragraph 158, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 148 or 152 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, *Impairment of Cash-Generating Assets* to that cash-generating unit.

161. An entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized in accordance with paragraph 158 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortization) if no impairment loss had been recognized previously.

Presentation

Display

162. When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the resource provider's transfer of consideration. An entity shall present any unconditional rights to consideration separately as a receivable.

163. If a resource provider transfers cash or another asset, or an entity has a right to consideration that is unconditional (i.e., a receivable), before the entity satisfies its compliance obligation, the entity shall present the binding arrangement as a binding arrangement liability when the transfer of consideration is made or is due (whichever is earlier). A binding arrangement liability is an entity's obligation to satisfy a compliance obligation for which the entity has received consideration (or an amount of an unconditional transfer of consideration is due) from the resource provider.

164. If an entity performs by satisfying a compliance obligation before the transfer of consideration is received or before the unconditional transfer of consideration is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 41. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 177(b)).

165. A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before consideration is due. For example, an entity would recognize a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. In accordance with paragraph 31, an entity shall subsequently measure a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

166. This Standard uses the terms "binding arrangement asset" and "binding arrangement liability" but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.

Disclosure

167. **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**

    (a) **Its revenues from transactions without binding arrangements (see paragraphs 172–176);**

    (b) **Its revenues from transactions with binding arrangements (see paragraphs 177–187);**

    (c) **The significant judgments, and changes in the judgments, made in applying this Standard to those binding arrangements (see paragraphs 188–190); and**

(d) **Any assets recognized from the costs to obtain or fulfill a binding arrangement with a resource provider in accordance with paragraph 148 or 152 (see paragraphs 191–192).**

168. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics. See paragraphs AG203–AG204 for additional guidance.

169. **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 transactions recognized during the period, showing separately, and by major classes:**

(i) **Taxes;**

(ii) **Other compulsory contributions and levies;**

(iii) **Transfers; and**

(iv) **Compliance obligations in a binding arrangement.**

(b) **The amount of receivables recognized at the reporting date in respect of revenue;**

(c) **The amount of liabilities recognized at the reporting date in respect of transferred assets subject to compliance obligations;**

(d) **The amount of liabilities recognized at the reporting date in respect of concessionary loans that are subject to requirements on transferred assets;**

(e) **The existence and amounts of any advance receipts in respect of transactions; and**

(f) **The amount of any liabilities forgiven.**

170. **An entity shall disclose in the notes to the general purpose financial statements:**

(a) **The accounting policies adopted for the recognition of revenue;**

(b) **The judgments, and changes in the judgments, made in applying this Standard that significantly affect the determination of the amount and timing of revenue;**

(c) **For major classes of revenue from transactions, the basis on which the transaction consideration of inflowing resources was measured;**

(d) **For major classes of taxation revenue and revenue from other compulsory contributions and levies that the entity cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy;**

(e) **The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and**

(f) **Qualitative and quantitative information about services in-kind that have been recognized.**

171. In the public sector, an entity may have a revenue transaction where the entity is compelled to satisfy an obligation for or impose a cost on the counterparty in the transaction, and the face value of the revenue transaction may not always be collectible. This may occur when the entity is compelled by way of legislation, constitutional authority, legally sanctioned process and policy decisions, or other mechanisms, and the counterparty may not have the ability or intention to pay. Examples of such transactions include revenue from

taxes or fines without binding arrangements, or revenue from satisfying a compliance obligation by providing goods or services to a third-party beneficiary in a binding arrangement. The entity shall disclose the following:

(a) A description of the legislation or policy decision which compels a party in the revenue transaction to satisfy its obligation to the entity in the revenue transaction;

(b) The amount of revenue from these transactions that was recognized after application of paragraphs 25 and 105 of this Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 115;

(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 119, or as the amount from these transactions that was not recognized as revenue as it was considered to be an implicit price concession from the application of paragraph 115; and

(d) If the transaction consideration has been reduced after consideration of an implicit price concession from the application of paragraph 115, an entity shall disclose the following:

    (i) The amount from these transactions that was recognized as revenue after identification of the implicit price concession; and

    (ii) The amount from these transactions that was not recognized as revenue, as it was considered an implicit price concession.

Specific Disclosure for Revenue without Binding Arrangements

172. As noted in paragraph 46, in many cases an entity will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies 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 or have elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.

173. Paragraph 169(e) requires an entity to disclose the existence of advance receipts. 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.

174. Paragraph 170(e) requires an entity to make disclosures about the nature and type of major classes of bequests, gifts, and donations it has received. These inflows of resources are received at the discretion of the resource provider, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly.

175. Entities that do not recognize services in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the entity. 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.

176. 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 175 strongly encourages an entity to make qualitative 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.

Specific Disclosure for Revenue with Binding Arrangements

177. **An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:**

(a) **Revenue recognized from binding arrangements with compliance obligations, separately from its other sources of revenue; and**

(b) **Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or binding arrangement assets arising from an entity's binding arrangements, which the entity shall disclose separately from impairment losses from other binding arrangements.**

178. Compliance obligations impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognized in respect of compliance obligations 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 169(c).

Disaggregation of Revenue

179. **An entity shall disaggregate revenue recognized from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG205–AG207 when selecting the categories to use to disaggregate revenue.**

180. **In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 179) and revenue information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.**

Binding Arrangement Balances

181. **An entity shall disclose all of the following:**

(a) **The opening and closing balances of receivables, binding arrangement assets and binding arrangement liabilities from binding arrangements, if not otherwise separately presented or disclosed;**

(b) **Revenue recognized in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and**

(c) **Revenue recognized in the reporting period from compliance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction consideration).**

182. **An entity shall explain how the timing of satisfaction of its compliance obligations (see paragraph 184(a)) relates to the typical timing of payment (see paragraph 184(b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.**

183. **An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:**

(a) **Changes due to public sector combinations;**

(b) Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

(c) Impairment of a binding arrangement asset;

(d) A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset to be reclassified to a receivable); and

(e) A change in the time frame for a compliance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability).

Compliance Obligations

184. An entity shall disclose information about its compliance obligations in binding arrangements, including a description of all of the following:

(a) When the entity typically satisfies its compliance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when compliance obligations are satisfied in a bill-and-hold arrangement;

(b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 119–121);

(c) The nature of the compliance obligations the entity has promised to satisfy, highlighting any compliance obligations to arrange for another party to incur compliance obligations (i.e., if the entity is acting as an agent);

(d) Obligations for returns, refunds and other similar obligations; and

(e) Types of warranties and related obligations.

Transaction Consideration Allocated to the Remaining Compliance Obligations

185. An entity shall disclose the following information about its remaining compliance obligations:

(a) The aggregate amount of the transaction consideration allocated to the compliance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with paragraph 185(a), which the entity shall disclose in either of the following ways:

(i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining compliance obligations; or

(ii) By using qualitative information.

186. As a practical expedient, an entity need not disclose the information in paragraph 185 for a compliance obligation if either of the following conditions is met:

(a) The compliance obligation is part of a binding arrangement that has an original expected duration of one year or less; or

(b) The entity recognizes revenue from the satisfaction of the compliance obligation in accordance with paragraph AG90.

187. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 186 and whether any consideration from binding arrangements is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 185. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 119–121).

Significant Judgments in the Application of this Standard

Determining the Timing of Satisfaction of Compliance Obligations

188. For compliance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) An explanation of why the methods used provide a faithful depiction of the use or transfer of goods or services.

189. For compliance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a compliance obligation is satisfied.

Determining the Transaction Consideration and the Amounts Allocated to Compliance Obligations

190. An entity shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) Determining the transaction consideration, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) Assessing whether an estimate of variable consideration is constrained;

(c) Allocating the transaction consideration, including estimating stand-alone values of promised goods or services, and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and

(d) Measuring obligations for returns, refunds and other similar obligations.

Assets Recognized from the Costs to Obtain or Fulfill a Binding Arrangement with a Resource Provider

191. An entity shall describe both of the following:

(a) The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 148 or 152); and

(b) The method it uses to determine the amortization for each reporting period.

192. An entity shall disclose all of the following:

(a) The closing balances of assets recognized from the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 148 or 152), by main category of asset (for example, costs to obtain binding arrangements with resource providers, pre-binding arrangement costs and setup costs); and

(b) The amount of amortization and any impairment losses recognized in the reporting period.

Practical Expedients

193. If an entity elects to use the practical expedient in either paragraph 126 (about the existence of a significant financing component) or paragraph 151 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

Effective Date and Transition

Effective Date

194. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.**

195. When an entity adopts the accrual basis IPSAS 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.

Transition

196. For the purposes of the transition requirements in paragraphs 197–203:

(a) The date of initial application is the start of the reporting period in which an entity first applies this Standard; and

(b) A completed binding arrangement is a binding arrangement for which:

(i) The entity has satisfied all of the conditions identified in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*; or

(ii) The entity has satisfied all of its promises identified in accordance with IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*.

197. An entity shall apply this Standard using one of the following two methods:

(a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, subject to the expedients in paragraph 199; or

(b) Retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application in accordance with paragraphs 201–203.

198. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this Standard is applied (the "immediately preceding period") and only if the entity applies this Standard retrospectively in accordance with paragraph 197(a)). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

199. An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph 197(a):

(a) For completed binding arrangements, an entity need not restate binding arrangements that:

(i) Begin and end within the same annual reporting period; or

(ii) Are completed binding arrangements at the beginning of the earliest period presented.

(b) For completed binding arrangements that have variable consideration, an entity may use the transaction consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 65–66. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

(i) Identifying the satisfied and unsatisfied compliance obligations;

(ii) Determining the transaction consideration; and

(iii) Allocating the transaction consideration to the satisfied and unsatisfied compliance obligations.

(d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction consideration allocated to the remaining compliance obligations and an explanation of when the entity expects to recognize that amount as revenue.

200. For any of the practical expedients in paragraph 199 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) The expedients that have been used; and

(b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

201. If an entity elects to apply this Standard retrospectively in accordance with paragraph 197(b), the entity shall recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this Standard retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for an entity with a December 31 year-end).

202. An entity applying this Standard retrospectively in accordance with paragraph 197(b) may also use the practical expedient described in paragraph 199(c), either:

(a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or

(b) For all modifications to a binding arrangement that occur before the date of initial application.

If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 200.

203. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph 197(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to IPSAS 9, IPSAS 11, and IPSAS 23; and

(b) An explanation of the reasons for significant changes identified.

Withdrawal of Other Standards

204. This Standard supersedes the following Standards:

(a) IPSAS 9, issued in 2001;

(b) IPSAS 11, issued in 2001; and

(c) IPSAS 23, issued in 2006.

IPSAS 9, IPSAS 11, and IPSAS 23 remain applicable until IPSAS 47 is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 47.

AG1. This Application Guidance is organized into the following categories:

(a) Scope (paragraphs AG2–AG9);

(b) Definitions (paragraphs AG10–AG12);

(c) Identify the Revenue Transaction (paragraphs AG13–AG31);

(i) Enforceability (paragraphs AG14–AG25);

(ii) Parties in an Arrangement (paragraphs AG26–AG31);

(d) Revenue from Transaction with Binding Arrangements (paragraphs AG32–AG138);

(i) Criteria for the Binding Arrangement Accounting Model (paragraphs AG32–AG39);

(ii) Breach of Terms and Conditions of a Binding Arrangement (paragraphs AG40–AG42);

(iii) Identifying Compliance Obligations in a Binding Arrangement (paragraphs AG43–AG56);

(iv) Initial Recognition of Revenue (paragraphs AG57–AG58);

(v) Existence and Recognition of a Liability (paragraphs AG59–AG62);

(vi) Satisfaction of Compliance Obligations (paragraphs AG63–AG81);

(vii) Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraphs AG82–AG85);

(viii) Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs AG86–AG95);

(ix) Right of Return for a Transfer of Goods or Services to Another Party (paragraphs AG96–AG103);

(x) Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraphs AG104–AG106);

(xi) Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraphs AG107–AG109);

(xii) Determination of the Stand-Alone Value (paragraph AG110);

(xiii) Warranties for Goods or Services Transferred to Another Party (paragraphs AG111–AG116);

(xiv) Principal Versus Agent Considerations (paragraphs AG117–AG125);

(xv) Resource Provider Options for Additional Goods or Services (paragraphs AG126–AG130);

(xvi) Resource Providers' Unexercised Rights (paragraphs AG131–AG134);

(xvii) Non-Refundable Upfront Fees (and Some Related Costs) for a Transfer of Goods or Services to Another Party (paragraphs AG135–AG138);

(e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);

(i) Capital Transfers (paragraphs AG140–AG142);

(ii) Services In-Kind (paragraphs AG143–AG149);

(iii) Pledges (paragraph AG150);

(iv) Advance Receipts of Transfers (paragraph AG151);

(v) Concessionary Loans (paragraphs AG152–AG153);

(vi) Measurement of Transferred Assets (paragraph AG154);

(vii) Debt Forgiveness and Assumptions of Liabilities (paragraphs AG155–AG158);

(viii) Fines (paragraphs AG159–AG160);

(ix) Bequests (paragraphs AG161–AG163);

(x) Gifts and Donations, including Goods In-Kind (paragraphs AG164–AG167);

(xi) Licensing (paragraphs AG168–AG182);

(xii) Repurchase Agreements (paragraphs AG183–AG196);

(xiii) Consignment Arrangements (paragraphs AG197–AG198);

(xiv) Bill-and-Hold Arrangements (paragraphs AG199–AG202); and

(f) Disclosure (paragraphs AG203–AG207);

(i) Disclosure of Disaggregated Revenue (paragraphs AG205–AG207).

Scope (paragraph 3)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for revenue transactions. Revenue may arise from transactions without binding arrangements or with binding arrangements. The definitions in paragraph 4 establish the key elements in applying the scope of the Standard.

AG3. While taxation is the major source of revenue for many governments, other public sector entities rely on transfers (sometimes known as grants) and other sources of funding. Examples of these revenues include, but are not limited to:

(a) Taxes;

(b) Transfers (whether cash or non-cash), including debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received; and

(c) Capital transfers.

AG4. This Standard specifies the accounting for the incremental costs of obtaining a binding arrangement and for the costs incurred to satisfy a binding arrangement if those costs are not within the scope of another Standard (see paragraphs 148–161). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement (or part of that binding arrangement) that is within the scope of this Standard.

Scope Exclusions

AG5. Gains from the sale of non-financial assets within the scope of IPSAS 16, *Investment Property*, IPSAS 31, *Intangible Assets*, or IPSAS 45, *Property, Plant, and Equipment*, that are not an output of an entity's activities are not considered revenue. However, the recognition and measurement principles within this Standard may be applied to account for the disposals of such assets.

AG6. This Standard does not apply to public sector combinations. 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 of the assets and liabilities of another operation or entity. Public sector combinations are accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

AG7. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Contributions from owners are defined in IPSAS 1, *Presentation of Financial Statements*. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition, and to consider the substance rather than the form of the transaction. 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.

AG8. Agreements that (a) 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) 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.

AG9. 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 entity will pay fixed distributions to the resource provider, with a return of the resource provider'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.

Definitions (paragraphs 4–8)

Binding Arrangement

AG10. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement. Each party in the binding arrangement willingly entered into the arrangement and is able to enforce their respective rights and obligations conferred on them in the arrangement.

AG11. This Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, an entity may apply this Standard to a portfolio of binding arrangements (or compliance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

AG12. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

Identify the Revenue Transaction (paragraphs 9–15)

AG13. An entity shall consider the terms of its revenue transaction and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to arrangements with similar characteristics and in similar circumstances.

Enforceability

AG14. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties in the arrangement accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether each entity in the arrangement has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.

AG15. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name; however, there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through "equivalent means", the presence of an enforcement mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the resource provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means in which the involved parties enforce each of the respective rights and obligations under the arrangement.

AG16. In the public sector, an arrangement is enforceable when each of the parties in the arrangement is able to enforce their respective rights and obligations. An arrangement is enforceable if the agreement includes:

(a) Clearly specified rights and obligations for each involved party; and

(b) Remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.

AG17. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their obligation(s) in the arrangement, through legal or equivalent means. If the entity is not able to determine how the mechanisms of enforceability identified would in substance enable the entity to hold the other parties in the arrangement accountable for satisfying their obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG18. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG19. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the stated obligations in the arrangement.

AG20. Cabinet or ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the stated obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to fulfill the promises established within the arrangement or to seek redress should these promises not be satisfied.

AG21. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of obligations by an entity, this may result in a valid enforcement mechanism.

AG22. An entity may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the other party. In general, the ability to reduce or withhold future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the resource provider to provide such funding. However, if the entity is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the reduction in future funding could be considered a valid enforcement mechanism.

AG23. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding arrangement are the resource provider's ability to reduce future funding and its past history of doing so.

AG24. A statement of intent or public announcement by a resource provider (e.g., government) to spend money or deliver goods and/or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between a resource provider and an entity (resource recipient).

AG25. In some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations, but they have not been historically enforced. If past experience with a resource provider indicates that the resource provider never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and may indicate that such terms do not in substance hold the other entity accountable and the arrangement is not considered enforceable. However, if the entity has no experience with the resource provider, or has not previously breached any terms that would prompt the resource provider to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the resource provider would enforce the terms, and the arrangement is considered enforceable. An entity should consider any past history of enforcement as one of the relevant factors in its overall assessment of enforceability and whether the entities can objectively be held accountable for enforcing the rights and satisfying the obligations they agreed to in the arrangement.

Parties in an Arrangement

AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

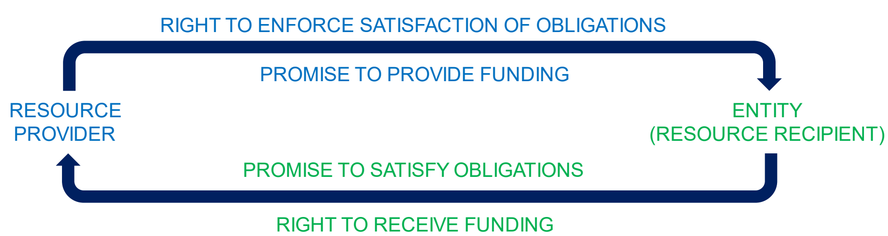
AG27. For public sector-specific transactions with binding arrangements, the resource provider is the party that provides consideration to the entity for goods or services set out in a binding arrangement but is not necessarily the party that receives those goods or services. The resource provider may provide consideration for the entity to:

(a) Use resources internally for goods or services. In these cases, the resource provider does not directly receive any goods, services, or other assets in return;

(b) Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser[7], as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or

(c) Transfer distinct goods or services to a third-party beneficiary. In multi-party arrangements (discussed below), the resource provider has a binding arrangement with and provides consideration to the entity to deliver goods or services to a third-party beneficiary. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over the age of 55, the central government is the resource provider and the citizens are the third-party beneficiaries. The resource provider can enforce delivery of those goods or services or seek recourse from the entity if the promises in the binding arrangement are not satisfied.

AG28. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration. The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



AG29. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the entity to deliver goods or services. However, for these multi-party arrangements to be within the scope of this Standard the resource provider must have the ability to force the entity to deliver distinct goods or services to the third-party beneficiaries. In these multi-party arrangements, the entity (resource recipient) is not an agent of the resource provider because the entity gains control of the consideration from the resource provider and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram:

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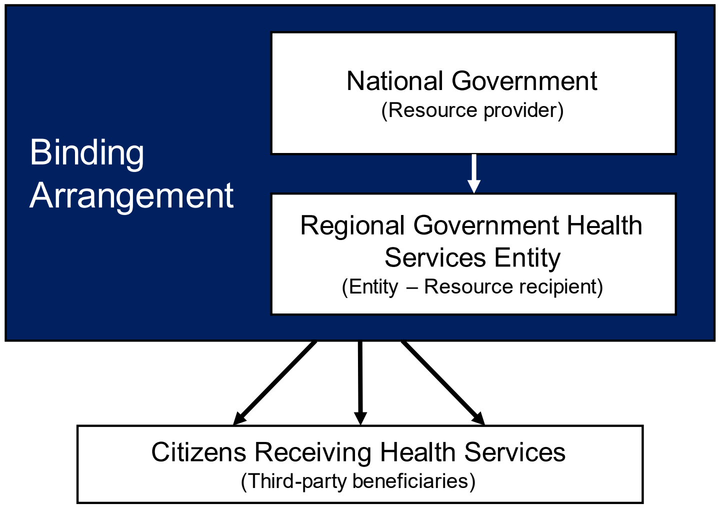
7 A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. A customer is a type of purchaser.



AG30. In assessing enforceability of an arrangement, the entity considers not only its ability to enforce its right to receive funds related to the completed obligation(s), but also the resource provider's ability to compel the entity to satisfy its obligations.

AG31. Some revenue transactions may be enforceable, but only create enforceable rights and obligations for one party in the arrangement. These transactions do not meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability.

Revenue from Transactions with Binding Arrangements

Criteria for the Binding Arrangement Accounting Model (paragraphs 56–61)

Economic Substance

AG32. An entity shall determine whether a transaction with a binding arrangement that requires a transfer of distinct goods or services to a purchaser or third-party beneficiary has economic substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. A transaction has economic 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 differences in (a) and (b) are significant relative to the current value of the assets exchanged.

AG33. For the purposes of determining whether a transaction has economic 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 results of these analyses may be clear without an entity having to perform detailed calculations.

AG34. For the purposes of this Standard, economic substance includes commercial substance.

Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph 56(e)

AG35. An entity should apply judgment in considering the facts and circumstances upon entering into a binding arrangement to assess the resource provider's ability and intent at inception to pay the expected consideration at a future date.

AG36. An entity should assess collectability at the inception of the binding arrangement based on the entity's best estimate of the risks associated with the resource provider in the binding arrangement. This initial assessment may differ from actual consideration collected subsequently as a result of changes in conditions or expectations. Such changes would be reflected as either impairment (decline from initial circumstances) or recognition of the full consideration (exceeding the expected collection determined at inception).

AG37. A price concession may be provided as part of the binding arrangement. A price concession is generally known by the parties at the inception of the binding arrangement, either implicitly or explicitly, and potentially informed by past history with the parties. This Standard typically measures revenue based on the transaction consideration to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items, but it is not reduced for impairment losses. However, where an entity is providing goods or services and accepts a lower amount of consideration from the resource provider than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession (see paragraphs 109 and 115(b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 56(e).

AG38. In some binding arrangements, entities are compelled by legislation to provide certain goods or services (such as water and electricity) to all citizens, regardless of whether the citizens have the intention or ability to pay for those goods or services.

AG39. When payment of the consideration, less any price concession, is not probable for delivering the good or service to certain groups of citizens, the criterion for identifying a binding arrangement in paragraph 56(e) is not met. In these circumstances, where the collection of the consideration, less any price concession, is not probable at the inception of the binding arrangement, an entity shall apply paragraph 58 of this Standard.

Breach of Terms and Conditions of a Binding Arrangement

AG40. The accounting treatment of a breach of the terms and conditions of a binding arrangement depends on:

(a) Whether there are any incomplete compliance obligations remaining under the arrangement;

(b) When the breach occurred – i.e., whether it was in the period in which the breach is discovered or in a prior period; and

(c) The reason for the breach.

AG41. If the breach occurs in the current period and is identified before the authorization of the financial statements for issue, the entity will recognize a liability for the amount to be refunded to the resource provider and derecognize any revenue recognized during the reporting period.

AG42. Where the breach is determined to have occurred in a prior period, the accounting treatment will be decided by assessing whether the breach has resulted in a:

(a) Change in accounting estimate as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*. Accounting estimates are used where items in financial statements cannot be measured with precision and judgment may be required in measuring those items as described in IPSAS 3;

(b) Prior period error which has arisen from a failure to use, or from the misuse of, faithfully representative information that was available when the financial statements for the period were authorized for issue or could reasonably be expected to have been obtained; or

(c) Separate past event because the amount recognized in prior period financial statements is not an estimated amount and was based on the use of faithfully representative information available at the date of the approval of the financial statements for the relevant reporting period.

Identifying Compliance Obligations in a Binding Arrangement (paragraphs 68–77)

Promises to Use Resources

AG43. A compliance obligation is an entity's promise in a binding arrangement to either use resources internally for a distinct good or service or transfer a distinct good or service to a purchaser (i.e., resource provider) or third-party beneficiary. The objectives of a compliance obligation may be incremental to the entity's service delivery objectives, or additional objectives in which the entity has engaged through the binding arrangement. The promise to use resources results in other resources (i.e., distinct goods or services that provide rights to economic benefits or service potential, or both) for either the reporting entity or another external party (either the purchaser or a third-party beneficiary. See paragraph AG49 for further guidance). The entity may also receive the benefit of the good or service but directs the use of the benefit to other parties.

AG44. This Standard requires an entity to appropriately identify any compliance obligations when it enters into a binding arrangement, and then recognize revenue as or when it satisfies each of the identified compliance obligations in accordance with the terms and conditions of the binding arrangement.

AG45. In the public sector, identifying compliance obligations may require significant judgment. A necessary condition for the existence of a compliance obligation is that the promise must be sufficiently specific to be able to determine when that compliance obligation is satisfied. An entity considers the following factors in identifying whether a promise is sufficiently specific:

(a) The nature or type of the promise to use resources;

(b) The cost or value of the distinct goods or services from the promise to use resources;

(c) The quantity of the distinct goods or services from the promise to use resources; and

(d) The period over which the use of resources occurs.

AG46. The existence of performance indicators in relation to the promises may, but does not necessarily, indicate the existence of a compliance obligation as defined in this Standard. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator is often an internally imposed measure of performance and not a compliance obligation.

Promises to Use Resources Internally

AG47. In many instances, an entity's promise in a binding arrangement requires the entity to use resources internally for a distinct good or service to achieve specific service delivery objectives. Examples of resources provided to a public sector entity in a binding arrangement may include:

(a) Transfers from national governments to provincial, state or local governments;

(b) Transfers from state/provincial governments to local governments;

(c) Transfers from governments to other public sector entities;

(d) Transfers to governmental agencies that are created by laws or regulations to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

(e) Transfers from donor agencies to governments or other public sector entities.

AG48. A resource provider in the binding arrangement would have the ability to enforce how the entity uses resources to achieve specific objectives and hold the entity accountable in complying with such terms. The compliance obligations may be imposed by requirements in binding arrangements establishing the basis of transfers, or may arise from the normal operating environment, such as the recognition of advance receipts.

Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG49. In some instances, an entity's promise in a binding arrangement requires the entity to use resources to transfer a distinct good or service to an external party or parties (i.e., to the purchaser (resource provider) or a third-party beneficiary) identified in the binding arrangement, in compliance with the terms and conditions of the binding arrangement. In practice, an entity will consider whether it maintains control of the resources, or the resources are converted into a good and/or service and are required to be transferred to the resource provider or a third-party beneficiary. In this case, the resource provider is effectively a purchaser of distinct goods or services from the entity.

AG50. A key feature distinguishing an entity's promise to transfer a distinct good or service from other promises in the binding arrangement is the clear identification of an external party receiving the distinct goods or services. A binding arrangement which imposes an obligation on an entity to transfer a distinct good or service to a specified external party (i.e., the purchaser or a specified third-party beneficiary) generally provides a clear indicator of specificity and transfer of control of the economic benefits and service potential of the resources from the entity to the external party.

AG51. Depending on the binding arrangement, goods or services promised in a compliance obligation may include, but are not limited to, the following:

(a) Provision of goods produced by an entity (for example, inventory such as publications or municipal water provided for a fee);

(b) Purchase of goods by an entity and provided to citizens (for example, waste collection bins);

(c) Resale of rights to goods or services purchased by an entity (for example, an emission allowance resold by an entity acting as a principal, see paragraphs AG117–AG125);

(d) Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination program for children provided by a hospital that was funded by a government for that purpose);

(e) Performing a task for a purchaser that is specified in the binding arrangement (for example, management of water facilities);

(f) Providing a service of standing ready to provide goods or services (for example, paramedics on site at an athletic competition organized by a community group);

(g) Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, see paragraphs AG117–AG125);

(h) Granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, the health department providing drugs and supplements to pharmacies promises to transfer an additional good or service to clinics that purchase the drugs and supplements from the pharmacies);

(i) Constructing, manufacturing or developing an asset on behalf of a purchaser (for example, a government works department building a recreational facility for another municipality);

(j) Granting licenses (see paragraphs AG168–AG182); and

(k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see paragraphs AG126–AG130)).

AG52. An entity earns and recognizes revenue when it satisfies a compliance obligation by transferring a promised good or service to a purchaser or third-party beneficiary. The transfer of the good or service is indicated when the purchaser or third-party beneficiary gains control of the promised goods or services. Paragraph 18 provides indicators of control, which include:

(a) The ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset; and

(b) The ability to prevent others from directing the economic benefits or service potential embodied in the asset.

Identifying Distinct Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG53. Promises to use resources to transfer distinct goods or services to an external party generally have a greater degree of specificity. An entity is required to clearly identify such compliance obligations in order to complete a more objective analysis and precise account for the recognition and measurement of revenue from these transactions.

AG54. In cases where a binding arrangement includes a compliance obligation to transfer distinct goods or services to a purchaser or third-party beneficiary, a good or service promised is distinct if both of the following criteria are met (see paragraph 73):

(a) The promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential either on its own or together with other resources that are readily available to the party receiving the good or service (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

AG55. In such binding arrangements, the promise to use resources to transfer distinct goods or services to the purchaser or a third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential when the entity's transfer of the good or service to the party receiving the goods or services contributes to the purchaser achieving its service delivery objectives.

AG56. Compliance obligations that require the transfer of promised goods or services to the purchaser or a third-party beneficiary are separately identifiable (i.e., distinct) from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that promise is satisfied. Therefore, it is possible to have several compliance obligations in one binding arrangement.

Initial Recognition of Revenue Transactions with a Binding Arrangement (paragraph 78)

AG57. In accordance with paragraph 78, when a binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. An entity's rights and obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined rights and obligations constitute a single asset or liability that is measured at zero. Individual rights and obligations are recognized as items (assets, liabilities, revenue and expenses depending on their nature) only when (or as) one or more parties to the binding arrangement satisfy their obligations.

AG58. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognize any asset, liability or revenue for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Existence and Recognition of a Liability (paragraphs 81–86)

AG59. An entity's compliance obligation in a binding arrangement may give rise to a liability. A liability is defined as a present obligation of the entity to transfer resources as a result of past events.

A Present Obligation

AG60. A present obligation may be legally binding (i.e., through legal or equivalent means) or non-legally binding. A compliance obligation is a legally binding present obligation, in revenue transactions with binding arrangements, to use resources in compliance with the terms of the binding arrangement. All binding arrangements include at least one compliance obligation.

As a Result of Past Events

AG61. Public sector entities may willingly enter into binding arrangements in order to deliver their service objectives and obtain assets from governments or other entities, or by purchasing or producing them. A liability may exist as a result of past events, specifically when:

(a) The entity enters into a binding arrangement with one or more parties; and

(b) The resource provider has provided promised resources before the entity satisfies the associated compliance obligation(s) (i.e., the entity has received a prepayment and the binding arrangement is partially satisfied).

Transactions or events expected to occur in the future do not in themselves give rise to compliance obligations.

A Transfer of Resources

AG62. The enforceability of a binding arrangement provides each party in the arrangement with the ability to hold the parties accountable to either satisfy their compliance obligations or face consequences if they do not satisfy their compliance obligations. When the entity has received resources after entering into a binding arrangement as a willing party, a liability exists if the consequence of the entity not satisfying its compliance obligation, as a result of these past events, is to transfer resources to another party (e.g., to the resource provider). Examples of consequences of non-compliance requiring a transfer of resources include, but are not limited to, repaying the resources to the resource provider or incurring some other form of penalty. Such a consequence requires a transfer of resources that the entity would not otherwise have had to transfer (i.e., incremental) had it not willingly entered into the binding arrangement and received resources from the resource provider associated with an unsatisfied or partially unsatisfied obligation (i.e., as a consequence of past events).

Satisfaction of Compliance Obligations (paragraphs 87–104)

Compliance Obligations to Use Resources for Goods or Services Internally

AG63. Paragraph 92 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

(a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or

(c) The entity has an enforceable right to consideration for performance completed to date (see paragraphs AG67–AG71).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph 92(a))

AG64. For some types of compliance obligations, the assessment of whether the entity receives the economic benefits or service potential provided by the entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a daily volunteer service) in which the receipt and simultaneous consumption of the economic benefits or service potential by the entity as it satisfies its compliance obligation can be readily identified.

AG65. For other types of compliance obligations, an entity may not be able to readily identify whether the entity simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to satisfy the remaining compliance obligation. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and

(b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefits or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the compliance obligation were to transfer to another entity.

Entity Controls the Asset as it is Created or Enhanced (paragraph 92(b))

AG66. In determining whether the entity controls an asset as it is created or enhanced in accordance with paragraph 92(b), an entity shall apply the requirements for control in paragraphs 89–90, 94, and AG183-AG196. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Right to Consideration for Performance Completed to Date (paragraph 92(c))

AG67. In accordance with paragraphs 92(c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its compliance obligations completed to date in the event that the resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for compliance obligations completed to date would be an amount that approximates the total cost of the goods or services used to date for no charge or for a nominal charge, or the price of the goods or services used to date (for example, recovery of the costs incurred by an entity in satisfying the compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:

(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the resource provider (or another party); or

(b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.

AG68. An entity's right to consideration for compliance obligations completed to date need not be a present unconditional right to consideration. In many cases, an entity will have an unconditional right to consideration only at an agreed-upon milestone or upon complete satisfaction of the compliance obligation. In assessing whether it has a right to consideration for compliance obligations completed to date, an entity shall consider whether it would have an enforceable right to demand or retain consideration for compliance obligations completed to date if the binding arrangement were to be terminated before completion for reasons other than the entity's failure to perform as promised.

AG69. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to use resources internally for distinct goods or services in compliance with the binding arrangement and require the resource provider to pay the consideration promised in exchange for those satisfied compliance obligations. In those circumstances, an entity has a right to consideration for compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the resource provider to perform its obligations (which include paying the promised consideration).

AG70. In assessing the existence and enforceability of a right to consideration for compliance obligations completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:

(a) Legislation, administrative practice or legal precedent confers upon the entity a right to consideration for performance to date even though that right is not specified in the binding arrangement with the resource provider;

(b) Relevant legal precedent indicates that similar rights to consideration for performance completed to date in similar binding arrangements have no binding legal effect; or

(c) An entity's customary practices of choosing not to enforce a right to consideration has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to consideration in similar binding arrangements, an entity would continue to have a right to consideration to date if, in the binding arrangement with the resource provider, its right to consideration for performance to date remains enforceable.

AG71. The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to consideration for compliance obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a resource provider, the payment schedule might not necessarily provide evidence of the entity's right to consideration for compliance obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the resource provider is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

Compliance Obligations to Transfer Goods or Services to Another Party

AG72. Paragraph 95 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

(a) The purchaser (the resource provider in the binding arrangement) or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG73–AG74);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG75); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG76–AG78) and the entity has an enforceable right to consideration for performance completed to date (see paragraphs AG79–AG81).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph 95(a))

AG73. For some types of compliance obligations, the assessment of whether a resource provider receives the economic benefits or service potential of an entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance can be readily identified.

AG74. For other types of compliance obligations, an entity may not be able to readily identify whether a resource provider simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to satisfy the remaining compliance obligation to the resource provider. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and

(b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefits or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the compliance obligation were to transfer to another entity.

Entity Controls the Asset as it is Created or Enhanced (paragraph 95(b))

AG75. In determining whether a resource provider controls an asset as it is created or enhanced in accordance with paragraph 95(b), an entity shall apply the requirements for control in paragraphs 89–90, 97, and AG183–AG185. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Satisfaction does not Create an Asset with an Alternative Use (paragraph 95(c))

AG76. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 95(c) and 96, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as providing it to a different entity. The possibility of the binding arrangement with the resource provider being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

AG77. A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a resource provider could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another resource provider without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

AG78. A practical limitation on an entity's ability to direct an asset for another use exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that either have design specifications that are unique to a resource provider or are located in remote areas.

Right to Consideration for Performance Completed to Date (paragraph 95(c))

AG79. In accordance with paragraphs 95(c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for compliance obligations completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:

(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the resource provider (or another party); or

(b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.

AG80. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser or third-party beneficiary the goods or services promised in the binding arrangement and require the resource provider to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to consideration for compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the resource provider to perform its obligations (which include paying the promised consideration).

AG81. An entity should also consider paragraphs AG68, AG70 and AG71 in assessing its right to consideration for performance completed to date related to compliance obligations that require a transfer of goods or services to another party.

Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraph 97)

AG82. In accordance with paragraph 97(e), a resource provider's acceptance of an asset may indicate that the resource provider has obtained control of the asset. Resource provider acceptance clauses may allow the resource provider to cancel a binding arrangement or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the resource provider obtains control of a good or service.

AG83. If an entity can objectively determine that control of a good or service has been transferred to the resource provider in accordance with the agreed-upon specifications in the binding arrangement, then resource provider acceptance is a formality that would not affect the entity's determination of when the resource provider has obtained control of the good or service. For example, if the acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of resource provider acceptance. The entity's experience with binding arrangements for similar goods or services may provide evidence that a good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement. If revenue is recognized before the resource provider accepts the asset, the entity still must consider whether there are any remaining compliance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

AG84. However, if an entity cannot objectively determine that the good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement, then the entity would not be able to conclude that the resource provider has obtained control until the entity receives acceptance by the resource provider. That is because in that circumstance the entity cannot determine that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from the good or service.

AG85. If an entity delivers a product to a purchaser or third-party beneficiary for trial or evaluation purposes and the resource provider is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the resource provider until either the resource provider accepts the product or the trial period lapses.

Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs 98–104)

AG86. Methods that can be used to measure an entity's progress towards complete satisfaction of a compliance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG87–AG91); and

(b) Input methods (see paragraphs AG92–AG95).

Output Methods

AG87. Output methods recognize revenue on the basis of direct measurements of the value to the entity receiving the outputs from the compliance obligations satisfied to date relative to the remaining compliance obligations under the binding arrangement. Output methods include methods such as specified activities performed to date, surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered.

AG88. A specified activity is a particular action, stated in a binding arrangement, that the entity must perform and for which the resource provider can compel the entity to perform, such as construct a hospital or conduct a form of research. As a detailed example, a resource provider provides funding to a government science agency (resource recipient) to conduct research and development into a plant-based meat substitute. Any intellectual property developed by the government science agency remains the property of that agency. The funding is provided on the basis of a detailed project plan (with the individual stages of research and development identified) provided by the government science agency and the resource provider requires the government science agency to report back at each stage. Each of these stages constitutes a specified activity and revenue would be recognized when (or as) they are completed and for the amount incurred in completing that specified action. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to deliver the specified activity, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

AG89. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the compliance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the promises to use resources in the specified manner. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a compliance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the resource provider that are not included in the measurement of the output.

AG90. As a practical expedient for compliance obligations where the entity is required to transfer a distinct good or service to an external party, if an entity has a right to consideration from a resource provider in an amount that corresponds directly with the value to the resource provider of the entity's compliance obligations completed to date (for example, a binding arrangement to render or provide a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

AG91. The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost. Therefore, an input method may be necessary.

Input Methods

AG92. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labor hours expended, eligible expenditures incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that compliance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognize revenue on a straight-line basis.

AG93. An eligible expenditure is a transfer of resources incurred in accordance with the requirements set out in a binding arrangement. A binding arrangement may require an entity to use resources for a particular purpose, such as to further the entity's objectives, and incur eligible expenditure for that purpose, but does not have an identifiable specified activity. For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and that the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditures. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to incur the eligible expenditure, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

AG94. The resource provider needs to be able to confirm that the entity's compliance obligations in the binding arrangement have been satisfied in the specified manner. Therefore, the entity needs to keep appropriate documentation to show that the inputs, such as any eligible expenditures, were incurred by the entity and directly related to the entity's satisfaction of the promises in the specified manner.

AG95. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the satisfaction of its compliance obligation. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 98, do not depict the entity's performance in satisfying its compliance obligations. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

(a) When a cost incurred does not contribute to an entity's progress in satisfying the compliance obligation. For example, an entity would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the transaction consideration of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the compliance obligation).

(b) When a cost incurred is not proportionate to the entity's progress in satisfying the compliance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a compliance obligation if the entity expects at the inception of the binding arrangement that all of the following conditions would be met:

(i) The good is not distinct;

(ii) The party receiving the good or service is expected to obtain control of the good significantly before receiving services related to the good;

(iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the compliance obligation; and

(iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs AG117–AG125).

Right of Return for a Transfer of Goods or Services to Another Party (paragraph 118)

AG96. In some binding arrangements, an entity transfers control of a product to a resource provider and also grants the resource provider the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

(a) A full or partial refund of any consideration paid;

(b) A credit that can be applied against amounts owed, or that will be owed, to the entity; and

(c) Another product in exchange.

AG97. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following:

(a) Revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned);

(b) A refund liability; and

(c) An asset (and corresponding adjustment to cost of sales) for its right to recover products from resource providers on settling the refund liability.

AG98. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a compliance obligation in addition to the obligation to provide a refund.

AG99. An entity shall apply the requirements in paragraphs 109–122 (including the requirements for constraining measurement in paragraphs 119–121) to determine the amount of consideration to which the entity expects to be entitled. In transactions where the binding arrangement requires an entity to transfer distinct goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary), this amount would exclude the products expected to be returned. For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognize revenue but shall recognize those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled for satisfying its compliance obligations in the binding arrangement and make a corresponding change to the transaction consideration and, therefore, in the amount of revenue recognized.

AG100. An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognize corresponding adjustments as revenue (or reductions of revenue).

AG101. An asset recognized for an entity's right to recover products from a resource provider on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, an entity shall update the measurement of the asset arising from changes in expectations about products to be returned. An entity shall present the asset separately from the refund liability.

AG102. Exchanges by resource providers of one product for another of the same type, quality, condition and price (for example, one color or size for another) are not considered returns for the purposes of applying this Standard.

AG103. Binding arrangements in which a resource provider may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG111–AG116.

Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraph 111(e))

AG104. Consideration payable to a resource provider includes cash amounts that an entity pays, or expects to pay, to the resource provider (or to other parties that purchase the entity's goods or services from the resource provider). Consideration payable to a resource provider also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the resource provider). An entity shall account for consideration payable to a resource provider as a reduction of the transaction consideration and, therefore, of revenue unless the payment to the resource provider is in exchange for a distinct good or service (as described in paragraphs 73–77) that the resource provider transfers to the entity. If the consideration payable to a resource provider includes a variable amount, an entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 113–121.

AG105. If consideration payable to a resource provider is a payment for a distinct good or service from the resource provider, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the resource provider exceeds the current value of the distinct good or service that the entity receives from the resource provider, then the entity shall account for such an excess as a reduction of the transaction consideration. If the entity cannot reasonably estimate the current value of the good or service received from the resource provider, it shall account for all of the consideration payable to the resource provider as a reduction of the transaction consideration.

AG106. Accordingly, if consideration payable to a resource provider is accounted for as a reduction of the transaction consideration, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

(a) The entity recognizes revenue for the transfer of the related goods or services to the purchaser or third-party beneficiary; and

(b) The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary practices.

Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraph 134)

AG107. A resource provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone values of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity has observable evidence in accordance with paragraph AG108 that the entire discount relates to only one or more, but not all, compliance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all compliance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction consideration to each compliance obligation on the basis of the relative stand-alone values of the underlying distinct goods or services.

AG108. An entity shall allocate a discount entirely to one or more, but not all, compliance obligations in the binding arrangement if all of the following criteria are met:

(a) The entity regularly provides each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;

(b) The entity also regularly provides on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone values of the goods or services in each bundle; and

(c) The discount attributable to each bundle of goods or services described in paragraph AG108(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the compliance obligation (or compliance obligations) to which the entire discount in the binding arrangement belongs.

AG109. If a discount is allocated entirely to one or more compliance obligations in the binding arrangement in accordance with paragraph AG108, an entity shall allocate the discount before using the residual approach to estimate the stand-alone value of a good or service in accordance with paragraph 139(c).

Determination of the Stand-Alone Value (paragraphs 137–140)

AG110. In the public sector, the determination of a stand-alone value for a compliance obligation in accordance with paragraph 137 may be challenging, particularly in situations where an entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone value is estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone value of the goods or services cannot be estimated from market information, the entity estimates the stand-alone value using the expected cost approach, as noted in paragraph 139(b).

Warranties for Goods or Services Transferred to Another Party

AG111. In binding arrangements where the entity provides distinct goods or services to another party, it is common for an entity to provide (in accordance with the binding arrangement, the law or the entity's customary practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a resource provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the resource provider with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG112. If a resource provider has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the entity promises to provide the service to the purchaser or third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity shall account for the promised warranty as a compliance obligation in accordance with paragraphs 68–77 and allocate a portion of the transaction consideration to that compliance obligation in accordance with paragraphs 133–143.

AG113. If a resource provider does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* unless the promised warranty, or a part of the promised warranty, provides the purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG114. In assessing whether a warranty provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:

(a) Whether the warranty is required by law – if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a compliance obligation because such requirements typically exist to protect resource providers from the risk of purchasing defective products.

(b) The length of the warranty coverage period – the longer the coverage period, the more likely it is that the promised warranty is a compliance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.

(c) The nature of the tasks that the entity promises to perform – if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a compliance obligation.

AG115. If a warranty, or a part of a warranty, provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a compliance obligation. Therefore, an entity shall allocate the transaction consideration to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single compliance obligation.

AG116. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a compliance obligation. For example, a manufacturer such as a government medical laboratory might sell products such as diagnostic ultrasound scanners to both government-owned and privately-owned medical centers and hospitals in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a purchaser or third-party beneficiary using a product for its intended purpose. Similarly, an entity's promise to indemnify the resource provider for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a compliance obligation. The entity shall account for such obligations in accordance with IPSAS 19.

Principal versus Agent Considerations

AG117. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the entity shall determine whether the nature of its promise is a compliance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser or third-party beneficiary. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchaser or third-party beneficiary (see paragraphs 73–77 and AG53–AG56). If a binding arrangement with a resource provider includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

AG118. To determine the nature of its promise (as described in paragraph AG117), the entity shall:

(a) Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party (see paragraph AG51)); and

(b) Assess whether it controls (as described in paragraph 90) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

AG119. An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser or third-party beneficiary. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser or third-party beneficiary. An entity that is a principal may satisfy its compliance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the compliance obligation on its behalf.

AG120. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following:

(a) A good or another asset from the other party that it then transfers to the purchaser or third-party beneficiary.

(b) A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the entity's behalf.

(c) A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For example, if an entity provides a significant service of integrating goods or services (see paragraph 76(a)) provided by another party into the specified good or service for which the resource provider has entered into a binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

AG121. When (or as) an entity that is a principal satisfies a compliance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG122. An entity is an agent if the entity's compliance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) an entity that is an agent satisfies a compliance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

AG123. Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see paragraph AG119)) include, but are not limited to, the following:

(a) The entity is primarily responsible for satisfying the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting resource provider specifications). If the entity is primarily responsible for satisfying the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.

(b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the resource provider (for example, if the resource provider has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a resource provider, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.

(c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the resource provider pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.

AG124. The indicators in paragraph AG123 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements.

AG125. If another entity assumes the entity's compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the compliance obligation to transfer the specified good or service to the purchaser or third-party beneficiary (i.e., the entity is no longer acting as the principal), the entity shall not recognize revenue for that compliance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Resource Provider Options for Additional Goods or Services

AG126. Resource provider options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, resource provider award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.

AG127. If, in a binding arrangement, an entity grants a resource provider the option to acquire additional goods or services, that option gives rise to a compliance obligation in the binding arrangement only if the option provides a material right to the resource provider that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of resource provider in that geographical area or market). If the option provides a material right to the resource provider, the resource provider in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires.

AG128. If a resource provider has the option to acquire an additional good or service at a price that would reflect the stand-alone value for that good or service, that option does not provide the resource provider with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this Standard only when the resource provider exercises the option to purchase the additional goods or services.

AG129. Paragraph 134 requires an entity to allocate the transaction consideration to compliance obligations on a relative stand-alone value basis. If the stand-alone value for a resource provider's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the resource provider would obtain when exercising the option, adjusted for both of the following:

(a) Any discount that the resource provider could receive without exercising the option; and

(b) The likelihood that the option will be exercised.

AG130. If a resource provider has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone value of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Resource Providers' Unexercised Rights

AG131. In accordance with paragraph 163, upon receipt of a prepayment from a resource provider, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its compliance obligation. An entity shall derecognize its binding arrangement liability (and recognize revenue) when it satisfies the compliance obligation associated with the consideration previously received from the resource provider.

AG132. A resource provider's non-refundable prepayment to an entity gives the resource provider a right to have the resource recipient satisfy its obligations (or face consequences outlined in the binding arrangement). However, resource providers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG133. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the resource provider. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the resource provider exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in paragraphs 119–121 on constraining estimates of variable consideration.

AG134. An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a resource provider's unexercised rights for which the entity is required to remit to another party, for example, a government entity in accordance with applicable unclaimed property laws.

Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

AG135. In some binding arrangements, an entity charges a resource provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a healthcare membership, activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG136. To identify compliance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement to satisfy the binding arrangement, that activity does not result in the transfer of a promised good or service to the purchaser or third-party beneficiary (see paragraph 72). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the resource provider the option to renew the binding arrangement and that option provides the resource provider with a material right as described in paragraph AG127.

AG137. If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate compliance obligation in accordance with paragraphs 68–77.

AG138. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph 72). If those setup activities do not satisfy a compliance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG95. That is because the costs of setup activities do not depict the transfer of services to a purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognized in accordance with paragraph 152.

Application of Principles to Specific Transactions

AG139. Public sector entities receive various types of transfers. Transfers may or may not arise from a binding arrangement. Subject to paragraph AG143, an entity shall recognize an asset in respect of transfer revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Capital Transfers

AG140. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. A capital transfer imposes at least one compliance obligation on the entity.

AG141. An entity shall recognize revenue as it satisfies its compliance obligations in its capital transfer transaction by applying paragraphs 87–104. An entity shall separately determine whether any inflow of resources from a capital transfer is to be recognized as an asset by applying paragraph 80, and whether its compliance obligation is to be recognized as a liability by applying paragraphs 81–86. The carrying amount of any such liability is reduced as revenue is recognized.

AG142. Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset by assessing whether the transaction consideration is associated with the operation of the asset, once acquired or constructed. Any compliance obligations related to the operation of the asset would be accounted for in accordance with the requirements of this Standard.

Services In-Kind

AG143. An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

AG144. Although recognition of services in-kind is not required by this Standard, entities are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's operations.

AG145. Services in-kind are services provided by individuals to public sector entities for no consideration. Some services in-kind 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.

AG146. 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.

AG147. 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 AG146, 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.

AG148. 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 175, however, strongly encourages the disclosure of qualitative information on 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.

AG149. 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

AG150. Pledges are unenforceable promises to transfer assets to the entity in the future. Pledges do not meet the definition of an asset, because the entity is unable to control the access of the resource provider 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 entity, it is recognized as a gift or donation, in accordance with paragraphs AG164–AG167. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

AG151. 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. This liability (advance receipt) may be recognized as a liability (deferred revenue), in accordance with paragraphs 81–86, when the event that makes the transfer arrangement binding occurs, and is subsequently extinguished when (or as) all compliance obligations under the agreement are satisfied.

Concessionary Loans

AG152. 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 accounted for in accordance with IPSAS 41. An entity considers whether any difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is revenue that should be accounted for in accordance with this Standard.

AG153. Where an entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, an entity recognizes the difference as revenue, except if a compliance obligation exists, for example, where specific requirements are imposed on the transferred assets by the entity result in a compliance obligation. Where a compliance obligation exists, the entity considers if it gives rise to the existence and recognition of a liability. As the entity satisfies the compliance obligation, the liability is reduced and an equal amount of revenue is recognized.

Measurement of Transferred Assets

AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity receives consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;

(a) Assets such as inventories, investment property, and intangible assets acquired through revenue transactions are to be initially measured at their fair value at the acquisition date;

(b) Property, plant, and equipment assets acquired through revenue transactions are to be measured at their deemed cost as at the acquisition date. The primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost (where such assets held for their operational capacity are measured at current operational value, and assets held for their financial capacity are measured at fair value); and

(c) Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument are to be measured at their transaction consideration as at the acquisition date in accordance with paragraph 109 and the appropriate accounting policy.

Debt Forgiveness and Assumptions of Liabilities

AG155. 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 circumstances when a creditor forgives a liability, the local government decreases the carrying amount of the existing liability and recognizes an increase in net assets.

AG156. 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.

AG157. 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 AG7–AG9.

AG158. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG159. 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 and/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.

AG160. 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 18. As noted in paragraph 5, 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

AG161. A bequest is a transfer of resources 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 and/or regulations of the jurisdiction.

AG162. 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 transaction consideration 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.

AG163. The transaction consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG166. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction consideration of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the transaction consideration of the resources received or receivable.

Gifts and Donations, including Goods In-kind

AG164. 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 requirements. The resource provider 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. 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 or service potential flowing to the entity.

AG165. Goods in-kind are tangible assets transferred to an entity in a transaction that do not require a transfer of distinct goods or services to an external party but may be subject to certain obligations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG166. Recognition of gifts or donations of services in-kind are addressed in paragraphs AG143–AG149. Gifts and donations other than services in-kind and goods in-kind are recognized as assets in accordance with paragraphs 18–25, and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.

AG167. On initial recognition, gifts and donations (including goods in-kind) are measured at their transaction consideration as at the acquisition date, in accordance with paragraph 30.

Licensing

AG168. A license establishes a resource provider's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

(a) Software and technology;

(b) Motion pictures, music and other forms of media and entertainment;

(c) Franchises; and

(d) Patents, trademarks and copyrights.

AG169. In addition to a promise to grant a license (or licenses) to a resource provider, an entity may also promise to transfer other goods or services to the purchaser or third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by an entity's customary practices, published policies or specific statements (see paragraph 71). As with other types of binding arrangements, when a binding arrangement with a resource provider includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 68–77 to identify each of the compliance obligations in the binding arrangement.

AG170. If the promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 73–77, an entity shall account for the promise to grant a license and those other promised goods or services together as a single compliance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

(a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and

(b) A license that the purchaser or third-party beneficiary can generate economic benefits or service potential from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a license, the purchaser or third-party beneficiary to access content).

AG171. If the license is not distinct, an entity shall apply paragraphs 87–97 to determine whether the compliance obligation (which includes the promised license) is a compliance obligation that is satisfied over time or satisfied at a point in time.

AG172. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the license is a separate compliance obligation, an entity shall determine whether the license transfers to a purchaser or third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the license to a purchaser or third-party beneficiary is to provide the resource provider with either:

(a) A right to access the entity's intellectual property as it exists throughout the license period; or

(b) A right to use the entity's intellectual property as it exists at the point in time at which the license is granted.

Determining the Nature of the Entity's Promise

AG173. The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

(a) The binding arrangement requires, or the resource provider reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the resource provider has rights (see paragraphs AG174–AG175);

(b) The rights granted by the license directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph AG173(a); and

(c) Those activities do not result in the transfer of a good or a service to the purchaser or third-party beneficiary as those activities occur (see paragraph 72).

AG174. Factors that may indicate that a resource provider could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the resource provider related to the intellectual property to which the resource provider has rights may also indicate that the resource provider could reasonably expect that the entity will undertake such activities.

AG175. An entity's activities significantly affect the intellectual property to which the resource provider has rights when either:

(a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or

(b) The ability of the resource provider to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

AG176. Accordingly, if the intellectual property to which the resource provider has rights has significant stand-alone functionality, a substantial portion of the economic benefits or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the purchaser or third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

AG177. If the criteria in paragraph AG173 are met, an entity shall account for the promise to grant a license as a compliance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 95(a)). An entity shall apply paragraphs 98–104 to select an appropriate method to measure its progress towards complete satisfaction of that compliance obligation to provide access.

AG178. If the criteria in paragraph AG173 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the resource provider. This means that the resource provider can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a compliance obligation satisfied at a point in time. An entity shall apply paragraph 97 to determine the point in time at which the license transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the purchaser or third-party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchaser or third-party beneficiary a code that enables the purchaser or third-party beneficiary to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

AG179. An entity shall disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

(a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the entity satisfies its compliance obligation at a point in time or over time.

(b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a compliance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the resource provider that the license transferred meets the specifications of the license promised in the binding arrangement.

Sales-Based or Usage-Based Royalties

AG180. Notwithstanding the requirements in paragraphs 119–121, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

(a) The subsequent sale or usage occurs; and

(b) The compliance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG181. The requirement for a sales-based or usage-based royalty in paragraph AG180 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the resource provider would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG182. When the requirement in paragraph AG181 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG180. When the requirement in paragraph AG181 is not met, the requirements on variable consideration in paragraphs 113–122 apply to the sales-based or usage-based royalty.

Repurchase Agreements

AG183. When evaluating whether an entity transfers control of an asset to the purchaser or an identified third-party beneficiary, an entity shall consider any agreement to repurchase the asset.

AG184. A repurchase agreement is a binding arrangement in which an entity provides an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally provided to the resource provider, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component.

AG185. Repurchase agreements generally come in three forms:

(a) An entity's obligation to repurchase the asset (a forward);

(b) An entity's right to repurchase the asset (a call option); and

(c) An entity's obligation to repurchase the asset at the resource provider's request (a put option).

A Forward or a Call Option

AG186. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a resource provider does not obtain control of the asset because the resource provider is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset even though the purchaser or third-party beneficiary may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:

(a) A lease in accordance with IPSAS 43, *Leases*, if the entity can or must repurchase the asset for an amount that is less than the original price of the asset; or

(b) A financing arrangement in accordance with paragraph AG188 if the entity can or must repurchase the asset for an amount that is equal to or more than the original price of the asset.

AG187. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG188. If the repurchase agreement is a financing arrangement, the entity shall continue to recognize the asset and also recognize a financial liability for any consideration received from the resource provider. The entity shall recognize the difference between the amount of consideration received from the resource provider and the amount of consideration to be paid to the resource provider as interest and, if applicable, as processing or holding costs (for example, insurance).

AG189. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

A Put Option

AG190. If an entity has an obligation to repurchase the asset at the resource provider's request (a put option) at a price that is lower than the original price of the asset, the entity shall consider at the inception of the binding arrangement whether the resource provider has a significant economic incentive to exercise that right. The resource provider's exercising of that right results in the resource provider effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the resource provider has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IPSAS 43.

AG191. To determine whether a resource provider has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the resource provider has a significant economic incentive to exercise the put option.

AG192. If the resource provider does not have a significant economic incentive to exercise its right at a price that is lower than the original price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG193. If the repurchase price of the asset is equal to or greater than the original price and is more than the expected market value of the asset, the binding arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG188.

AG194. If the repurchase price of the asset is equal to or greater than the original price and is less than or equal to the expected market value of the asset, and the resource provider does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG195. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG196. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

Consignment Arrangements

AG197. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end purchasers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment.

AG198. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

(a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a resource provider of the dealer or until a specified period expires;

(b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and

(c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Bill-and-Hold Arrangements

AG199. A bill-and-hold arrangement is a binding arrangement under which an entity bills a resource provider for a product, but the entity retains physical possession of the product until it is transferred to the purchaser or third-party beneficiary at a point in time in the future. For example, a purchaser may request an entity to enter into such a binding arrangement because of the resource provider's lack of available space for the product or because of delays in the resource provider's production schedules.

AG200. An entity shall determine when it has satisfied its compliance obligation to transfer a product by evaluating when a resource provider obtains control of that product (see paragraph 97). For some binding arrangements, control is transferred either when the product is delivered to the purchaser or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a resource provider may obtain control of a product even though that product remains in an entity's physical possession. In that case, the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the resource provider over the resource provider's asset.

AG201. In addition to applying the requirements in paragraph 97, for a resource provider to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

(a) The reason for the bill-and-hold arrangement must be substantive (for example, the resource provider has requested the arrangement);

(b) The product must be identified separately as belonging to the resource provider;

(c) The product currently must be ready for physical transfer to the purchaser or third-party beneficiary; and

(d) The entity cannot have the ability to use the product or to direct it to another resource provider.

AG202. If an entity recognizes revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining compliance obligations (for example, for custodial services) in accordance with paragraphs 68–77 to which the entity shall allocate a portion of the transaction consideration in accordance with paragraphs 133–143.

Disclosure (paragraphs 167–193)

AG203. An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

AG204. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45–47 of IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

Disclosure of Disaggregated Revenue (paragraphs 179–180)

AG205. Paragraph 179 requires an entity to disaggregate revenue from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements. Some entities may need to use more than one type of category to meet the objective in paragraph 179 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG206. When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:

(a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);

(b) Information regularly reviewed for evaluating the financial performance of segments; and

(c) Other information that is similar to the types of information identified in paragraphs AG206(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

AG207. Examples of categories that might be appropriate include, but are not limited to, the following:

(a) Type of compliance obligation;

(b) Geographical region (for example, country or region);

(c) Market or type of purchaser resource provider (for example, government and non-government resource providers);

(d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);

(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements);

(f) Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time);

(g) Sales channels (for example, goods provided directly to purchasers or third-party beneficiaries and goods provided through intermediaries); and

(h) Revenue earned from the provision of goods or services to third-party beneficiaries.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 50, 88, 94, and 135 are amended, and paragraph 153Q is added. New text is underlined and deleted text is struck through.

…

Overall Considerations

…

Offsetting

50. ~~IPSAS 9, *Revenue from Exchange Transactions*,~~ IPSAS 47, *Revenue,* ~~defines revenue and~~ requires ~~it~~ revenue to be measured at the ~~fair value of consideration received or receivable, taking into account 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. ~~An entity undertakes~~, in the course of its ~~ordinary~~ 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 ~~proceeds~~ amount of consideration on disposal the carrying amount of the asset and related selling expenses; and

    (b) …

…

Structure and Content

…

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:**

    …

    (g) **~~Recoverables from non-exchange transactions (taxes and transfers);~~ [deleted]**

    (h) **Receivables ~~from exchange transactions~~;**

    …

    (k) **Payables ~~under exchange transactions~~;**

    …

…

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

…

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.

…

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other ~~non-exchange~~ revenue transactions, receivables from related parties, prepayment, and other amounts;

…

…

Disclosure of Accounting Policies

…

135. Each entity considers the nature of its operations and the policies that the user 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 ~~non-exchange~~ 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.

…

Effective Date

…

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.**

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 1.

Illustrative Financial Statement Structure

…

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

…

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

	20X2	20X1
~~Fees, fines, penalties, and licenses~~Other compulsory contributions and levies	X	X
~~Revenue from exchange transactions~~	~~X~~	~~X~~
Transfers ~~from other government entities~~ without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total revenue	X	X
…	…	…

…

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
~~Fees, fines, penalties, and licenses~~Other compulsory contributions and levies	X	X
~~Revenue from exchange transactions~~	~~X~~	~~X~~
Transfers ~~from other government entities~~ without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total ~~R~~revenue	X	X
…	…	…

…

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraphs 21 and 22 are amended, and paragraph 63K is added. New text is underlined and deleted text is struck through.

…

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) ~~By way of t~~Taxes (directly and indirectly); ~~or~~

(b) ~~From the recipients of goods and services provided by the entity;~~ [deleted]

(c) Other compulsory contributions and levies;

(d) Transfers; or

(e) Provision of goods or services to another entity in a binding arrangement.

…

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:

….

(c) Cash receipts from grants, ~~or~~ transfers and other appropriations or other budget authority made by central government or other public sector entities;

…

Effective Date

…

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.**

…

Illustrative Examples

…

Notes to the Cash Flow Statement

…

(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 ~~grants~~ transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

…

Indirect Method Cash Flow Statement (paragraph 27(a))

…

(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 ~~grants~~ transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraph 11 is amended, and paragraph 71I is added. New text is underlined and deleted text is struck through.

…

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;

…

…

Effective Date

…

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.**

…

Illustrative Examples

…

Example 2—Multiple Receipts for Revenue Recognized at a Single Point in Time

…

IE7. Applying ~~paragraph 28 of IPSAS 9, *Revenue from Exchange Transactions*,~~ 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.

…

Amendments to IPSAS 5, *Borrowing Costs*

Paragraph 26 is amended, and paragraph 42G is added. New text is underlined and deleted text is struck through.

…

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 controlled entity receives an interest free capital contribution or capital ~~grant~~ transfer, it will not incur any borrowing costs, and consequently will not capitalize any such costs.

…

Effective Date

…

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.**

…

Amendments to IPSAS 12, *Inventories*

Paragraphs 2, 9, 11, 39, and 48 are amended, paragraph 51I is added, and paragraph 28 is deleted. New text is underlined and deleted text is struck through.

…

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) **~~Work-in-progress arising under construction contracts, including directly related service contracts (see IPSAS 11, *Construction Contracts*);~~ [Deleted]**

   …

…

Definitions

…

9. **The following terms are used in this Standard with the meanings specified:**

   …

   <u>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.</u>

   …

   <u>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.</u>

   …

…

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 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. ~~In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognized the related revenue. (guidance on recognition of revenue can be found in IPSAS 9, *Revenue from Exchange Transactions*.)~~ <u>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*.</u>

…

~~*Cost of Inventories of a Service Provider*~~ [Deleted]

28. ~~To the extent that service providers have inventories (except those referred to in paragraph 2(d)), they measure them at the costs of their production. These costs consist primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The costs of labor not engaged in providing the service are not included. Labor and other costs relating to sales and general administrative personnel are not included, but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include surplus margins or non-attributable overheads that are often factored into prices charged by service providers.~~ [Deleted]

…

Net Realizable Value

…

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. ~~Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.~~

…

Disclosure

…

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. ~~The inventories of a service provider may be described as work-in-progress.~~

…

Effective Date

…

51I. **<u>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.</u>**

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 13, 78, and 81 are amended, and paragraph 101L is added. New text is underlined and deleted text is struck through.

…

Classification of Property as Investment Property or Owner-Occupied Property

…

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

…

~~(b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).~~ [Deleted]

…

…

Disposals

…

78. The disposal of an investment property may be achieved by sale or by entering into a finance lease. ~~In determining t~~ The date of disposal for the investment property~~, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods and considers the related guidance in the Implementation Guidance to IPSAS 9~~ 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.

…

81. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an investment property is ~~recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, using the effective interest method~~ 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.

…

Effective Date

…

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.**

…

Amendments to IPSAS 17, *Property, Plant, and Equipment*

Paragraphs 83A, 84, and 87 are amended, and paragraph 107T is added. New text is underlined and deleted text is struck through.

…

Derecognition

…

83A. However, an entity that, in the course of its ~~ordinary~~ activities, routinely ~~sells~~ 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 ~~proceeds~~ amount of consideration from the ~~sale~~ disposal of such assets shall be recognized as revenue in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~ IPSAS 47, *Revenue*.

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). ~~In determining t~~ The date of disposal of an item~~, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods~~ 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.

…

87. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an item of property, plant, and equipment is ~~recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable~~ 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.

…

Effective Date

…

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.**

…

Amendments to IPSAS 18, *Segment Reporting*

Paragraphs 27 and 39 are amended, and paragraph 76H is added. New text is underlined and deleted text is struck through.

…

Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies

27. **The following additional terms are used in this Standard with the meanings specified:**

…

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 ~~sales to external customers~~ the provision of goods or services to other parties or from transactions with other segments of the same entity. Segment revenue does not include:

…

Segment Assets, Liabilities, Revenue, and Expense

…

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~~, and IPSAS 11, *Construction Contracts*, provides guidance for attributing and allocating costs to contracts. That guidance may be useful in attributing and allocating costs to segments~~.

…

Effective Date

…

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.**

…

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 13, 15, and 107 are amended, and paragraph 111O is added. New text is underlined and deleted text is struck through.

…

Scope

…

Other Exclusions from the Scope of the Standard

…

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) ~~Construction contracts (see IPSAS 11, *Construction Contracts*); and~~ [Deleted]

(b) … ~~.~~; 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.

…

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 9, *Revenue from Exchange Transactions*~~IPSAS 47 identifies the circumstances in which revenue ~~from exchange transactions~~ 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 9~~ IPSAS 47.

…

Disclosure

…

107. The disclosure requirement 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 ~~to be dealt with as a part of a separate project on non-exchange~~ addressed in IPSAS 47.

…

Effective Date

…

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.**

…

Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraphs 2 and 8 are amended, and paragraph 82N is added. New text is underlined and deleted text is struck through.

…

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 for:

…

(b) ~~Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*);~~ Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with IPSAS 47, *Revenue*;

…

8. This Standard does not apply to inventories, ~~and assets arising from construction contracts~~ binding arrangement assets, and assets arising from costs to obtain or fulfill a binding arrangement, because existing IPSAS applicable to these assets contain requirements for recognizing and measuring these assets.

…

Effective Date

…

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.**

…

Amendments to IPSAS 24, *Presentation of Budget Information in Financial Statements*

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 24.

…

Additional Column Approach

For Government YY for the Year Ended December 31, 20XX

Both Annual Budget ~~A~~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**	**Difference: Original Budget and Actual*
	Revenue				
X	Taxes	X	X	X	X
X	~~Fees, fines, penalties, and licenses~~Other compulsory contributions and levies	X	X	X	X
~~X~~	~~Revenue from exchange transactions~~	~~X~~	~~X~~	~~X~~	~~X~~
X	Transfers ~~from other governments~~ without a binding arrangement	X	X	X	X
X	Revenue from compliance obligations in a binding arrangement	X	X	X	X
	…				

…

* 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.

Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraphs 2, 8 and 29 are amended, and paragraph 126P is added. New text is underlined and deleted text is struck through.

…

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:

   …

   (b) ~~Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*)~~ Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with IPSAS 47, *Revenue*;

   …

…

8. This Standard does not apply to inventories, ~~and cash-generating assets arising from construction contracts~~ 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 to sell. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

…

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) …

   (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 ~~exchange~~ 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.

…

Effective Date

…

126P. **Paragraph 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.**

…

Amendments to IPSAS 27, *Agriculture*

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

…

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)* ~~provides~~ 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 prescribed that assets acquired through a non-exchange transaction should be measured initially at fair value as at the acquisition date. 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~~ the IPSASB debated various approaches to measuring biological assets and agricultural produce acquired through a non-exchange transaction~~. In particular~~, it considered, in particular, the following three approaches:

(a) …

…

BC9. In analyzing approach 3, the IPSASB 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 ~~states~~ 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 are included in the amount recognized as an asset, in accordance with IPSAS 17." This ~~implies~~ implied that for other assets, an entity ~~considers~~ 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 ~~considers~~ 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.

…

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:

- …
- 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 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue* provides requirements and guidance related to government grants ~~in non-exchange transactions~~.
- …

…

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraphs AG21, AG22, and AG46 are amended, and paragraph 60J is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

60J. **Paragraphs AG21, AG22 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.**

…

Application Guidance

…

Scope

…

AG21. In the public sector, it is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from ~~non-exchange~~ revenue transactions are accounted for in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ 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 23~~ IPSAS 47 in assessing whether a ~~non-exchange~~ 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.

…

AG46. Except as required by IPSAS 47, a ~~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.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 28.

…

Definitions

…

Contractual Non-Exchange Revenue Transactions

BC17. When this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* ~~prescribes~~ 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 ~~are~~ were financial assets and financial liabilities, the IPSASB identified that the following basic requirements should be fulfilled:

- …

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 ~~are~~ were financial assets.

BC20. Therefore, when this Standard was developed, the ~~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~~s~~ the principles in IPSAS 28 in considering whether an inflow of resources from a non-exchange revenue transaction ~~results~~ 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 ~~are~~ were financial liabilities. Liabilities ~~are~~ were recognized in IPSAS 23 when an entity ~~receives~~ received an inflow of resources that ~~is~~ was subject to specific conditions. Conditions on a transfer of resources ~~are~~ imposed on an entity by a transferor ~~and~~ ~~require~~ required that the resources ~~are~~ were used in a certain way, often to provide goods ~~and~~or services to third parties, or ~~are~~ were returned to the transferor. This ~~gives~~ gave rise to an obligation to perform in terms of the agreement. At initial recognition, an entity ~~recognizes~~ recognized the resources as an asset and, where they are subject to conditions, ~~recognizes~~ recognized a corresponding liability.

BC22. <u>While developing this Standard,</u> ~~T~~<u>t</u>he 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 ~~and~~<u>or</u> services to third parties over a period of time. If after initial recognition, the entity cannot the fulfil<u>l</u> 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. <u>While developing this Standard, t</u>he 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 ~~requires~~ <u>required</u> 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.

…

Amendments to IPSAS 29, *Financial Instruments: Recognition and Measurement*

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 29.

…

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 ~~is~~ <u>was</u> addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 ~~does~~ <u>did</u> 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. <u>When this Standard was being developed,</u> ~~The~~ <u>the</u> IPSASB agreed that where an asset acquired in a non-exchange transaction ~~is~~ <u>was</u> a financial asset, an entity:

- Initially ~~recognizes~~ <u>recognized</u> the asset using IPSAS 23; and
- Initially ~~measures~~ <u>measured</u> the asset using IPSAS 23 and, ~~considers~~ <u>considered</u> the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

As IPSAS 23 ~~does~~ <u>did</u> not prescribe subsequent measurement or derecognition requirements for assets acquired in a nonexchange transaction, this Standard is applied to those assets if they are financial assets.

…

Initial Measurement

BC9. The IPSASB acknowledged that there ~~is~~ 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 ~~requires~~ required that assets acquired in a non-exchange revenue transaction are measured initially at fair value. This Standard ~~requires~~ 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, t~~T~~he 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.

…

Financial Guarantees Issued Through a Non-Exchange Transaction

…

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 ~~amortization~~ recognized in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~IPSAS 47, *Revenue*. Where the transaction ~~price~~ 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.

…

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraphs 5A, 42A, 42H, 42M, and 42N are amended, and paragraph 52N is added. New text is underlined and deleted text is struck through.

…

Scope

…

5A. The credit risk disclosure requirements in paragraphs 42A–42N apply to those rights for receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of IPSAS 9 and non-exchange transactions within the scope of IPSAS 23~~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.

…

Nature and Extent of Risks Arising from Financial Instruments

…

Quantitative Disclosures

…

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 ~~exchange~~ revenue transactions that are within the scope of ~~IPSAS 9 and non-exchange transactions within the scope of IPSAS 23~~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.

…

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:

…

(b) The loss allowance measured at an amount equal to lifetime expected credit losses for:

…

(iii) Receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~IPSAS 23~~IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

…

…

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:

…

(b) For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

…

(iii) Receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~IPSAS 23~~IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

…

42N. For receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~IPSAS 23~~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).

…

Effective Date

…

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.**

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 6, 26, 113, 115, and AG6 are amended, and paragraph 132O is added. New text is underlined and deleted text is struck through.

…

Scope

…

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:

(a) Intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~IPSAS 11, *Construction Contracts*, and~~ IPSAS 12, *Inventories*);

…

(e) …; ~~and~~

(f) …; and

(g) Assets arising from binding arrangements that are recognized in accordance with IPSAS 47, *Revenue*.

…

Recognition and Measurement

26. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

…

This requirement applies to the cost measured at recognition (the cost incurred in an exchange transaction to acquire or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

…

Retirements and Disposals

…

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). ~~In determining t~~ The date of disposal of ~~such an asset, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods~~ an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a compliance obligation in the binding arrangement is satisfied in IPSAS 47. IPSAS 43 applies to disposal by a sale and leaseback.

…

115. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an intangible asset is ~~recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable~~ 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 the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.

…

Effective Date

…

132O. **Paragraphs 6, 26, 113, 115, and AG6 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.**

…

Application Guidance

…

AG6. IPSAS 31 does not apply to intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~IPSAS 11 and~~ IPSAS 12 and IPSAS 47) or leases that fall within the scope of IPSAS 43. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity or that is accounted for in accordance with IPSAS 43.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

…

Scope

…

BC5. When this Standard was developed, IAS 38 ~~contains~~ contained requirements on exchanges of assets when the exchange transaction lacks commercial substance. The IPSASB considered whether this guidance ~~is~~ was necessary and concluded that it was not necessary because this issue ~~is~~ was addressed in IPSAS 23.

…

Intangible Assets Acquired through a Non-Exchange Transaction

BC8. At the time this Standard was developed IPSAS 23 ~~prescribes~~ prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising from non-exchange revenue transactions. This Standard addresses the circumstance where an intangible asset is acquired through a non-exchange transaction. The IPSASB agreed that, for intangible assets arising from such transactions, an entity applies the requirements of IPSAS 23 in conjunction with this Standard for initial measurement of the intangible asset and, accordingly, considers directly attributable costs specified in this Standard.

…

Amendments to IPSAS 32, *Service Concession Arrangements: Grantor*

Paragraphs 30, AG56, and AG64 are amended, and paragraph 36G is added. New text is underlined and deleted text is struck through.

…

Other Revenues (see paragraphs AG55–AG64)

30. The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–26, in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~ IPSAS 47, *Revenue*.

…

Effective Date

…

36G. **Paragraphs 30, AG56, and AG64 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.**

…

Application Guidance

This Appendix is an integral part of IPSAS 32.

…

Other Revenues (see paragraph 30)

…

AG56. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with ~~IPSAS 9~~IPSAS 47, *Revenue*. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

…

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 32.

…

Scope

…

BC5. When this Standard was issued, the ~~The~~ IPSASB had also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions).

…

Recognition of a Liability

…

BC21. The IPSASB agreed that clarification of this issue was required. When this Standard was developed, ~~The~~the IPSASB noted that using the term "performance obligation" could give rise to confusion because it ~~is~~ was used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions.

…

Grant of a Right to the Operator Model

BC29. In responding to the issues raised by respondents to ED 43, the IPSASB had reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from earning revenue from third-party users of the service concession asset or another revenue-generating asset. The IPSASB had noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides an increase in net assets to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the ~~Board~~ IPSASB had referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue.

…

BC31. The IPSASB therefore had considered whether the credit should be accounted for as a liability, as a direct increase to net assets/equity, or as revenue.

BC32. The IPSASB had ~~It was~~ agreed that, in this circumstance, the grantor does not have a liability because the service concession arrangement is an exchange of assets, with the service concession asset being obtained by the grantor in exchange for a transfer of rights to the operator to earn revenue from third-party users of the asset over the period of the service concession arrangement.

BC33. Some respondents to ED 43 had indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, *Presentation of Financial Statements* which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

…

BC34. The IPSASB had concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC33 for the reasons noted below:

…

BC35. When this Standard was issued, the ~~The~~ IPSASB had agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, 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 as it results in an increase in the net assets of the grantor. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third-party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC36. When this Standard was issued, the ~~The~~ IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result was ~~is~~ consistent with IPSAS 9 in which an entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues.

BC37. When this Standard was issued, the ~~The~~ revenue was ~~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 could not ~~cannot~~ be measured reliably, the revenue was ~~is~~ measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

BC38. When this Standard was issued, IPSAS 9 had identified ~~identifies~~ three types of transaction that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of the entity's assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB had considered these types of transactions separately.

BC39. The IPSASB had considered the approaches to revenue recognition set out in IPSAS 9 in relation to the "grant of a right to the operator" model and concluded that none of those scenarios fully met the circumstances of this model. Nevertheless, the IPSASB had noted that the timing of revenue recognition under each of them is over the term of the arrangement, rather than immediately. The IPSASB had determined that, by analogy, such a pattern of revenue recognition was also appropriate for recognizing the revenue arising from the liability related to this model. As a result, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 32.

…

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.

…

WITHIN THE SCOPE OF THE STANDARD

- …
- Grantor recognizes related liability equal to the value of the SCA asset (~~IPSAS 9,~~ IPSAS 28, IPSAS 30, ~~and~~ IPSAS 41, and IPSAS 47)
- …

…

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by binding arrangement or license)
Residual interest	Grantor				Operator	
Relevant IPSAS	IPSAS 43	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) ~~IPSAS 9~~IPSAS 47 (revenue recognition)	

…

Amendments to IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*

Paragraphs 32, 41, and 42 and 43 and their related heading are amended, and paragraph 154N is added. New text is underlined and deleted text is struck through.

…

Fair Presentation and Compliance with IPSAS

…

32. For example, a first-time adopter adopts the three-year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of ~~non-exchange~~ revenue. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSAS will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSAS at the date of adoption of accrual basis IPSAS or during the period of transition.

…

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

Three-Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

…

41. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three-year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue ~~in terms of~~ ~~IPSAS 9, *Revenue from Exchange Transactions*~~, or other receivables settled in cash or another financial asset, in terms of ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*.**

Recognition and/or Measurement of ~~Non-Exchange~~ Revenue

42. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of ~~non-exchange~~ revenue for reporting periods beginning on a date within three years following the date of adoption of IPSAS. A first-time adopter may change its accounting policy in respect of revenue ~~from non-exchange transactions~~ on a class-by-class basis.**

43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue ~~from non-exchange transactions~~ in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47 during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue ~~from non-exchange transactions~~ that do not comply with the provisions of ~~IPSAS 23~~ IPSAS 47. The transitional provision in paragraph 42 allows a first-time adopter to apply ~~IPSAS 23~~ IPSAS 47 incrementally to different classes of revenue ~~from non-exchange transactions~~. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of revenue from transactions without binding arrangements in accordance with ~~IPSAS 23~~ IPSAS 47 from the date of adoption of IPSAS, but may require three years to fully develop a reliable model for reorganizing and measuring revenue from income tax and revenue from transactions with binding arrangements.

…

Effective Date

…

154N. **Paragraphs 32, 41, and 42 and 43 and their related heading 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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition and Measurement of ~~Non-Exchange~~ Revenue

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

BC64. When this Standard was developed, ~~The~~the existing transitional provisions in IPSAS 23 ~~allow~~ allowed a first-time adopter to not change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also ~~allows~~ allowed a first-time adopter to not change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for a period of three years. It also ~~requires~~ required that changes in accounting policies should only be made to better conform to IPSAS 23.

BC65. The IPSASB concluded that it ~~will~~ would be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transitional relief period should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual accounting prior to the adoption of the accrual basis. In line with the relief period of three years provided for the recognition of assets and/or liabilities in other IPSAS, and in line with the existing three year transitional relief period provided for other non-exchange revenue in IPSAS 23 at the time this Standard was developed, it was agreed that a first-time adopter should be granted a relief period of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transitional period of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSAS. During the period of transition, a first-time adopter will be allowed to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

BC65A. IPSAS 47, *Revenue*, was issued in May 2023 and replaced IPSAS 9, IPSAS 11, *Construction Contracts*, and IPSAS 23, and requires an entity to identify and account for revenue based on whether it arises from a binding arrangement rather than by its classification as exchange or non-exchange. In its development, the IPSASB noted that it will be similarly challenging for public sector entities to implement IPSAS 47. The accounting for revenues without binding arrangements, which will encompass most non-exchange transactions previously in the scope of IPSAS 23, would continue to pose practical challenges. The accounting for revenues arising from binding arrangements (which may include both exchange or non-exchange revenues) may also require complex models, and new systems, processes, or internal controls. Consequently, the IPSASB concluded that the 3-year transitional exemption should also be available for revenues accounted for in accordance with IPSAS 47 in order to provide transition relief for first-time adopters.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

~~IPSAS 9, *Revenue from Exchange Transactions*~~ IPSAS 47, *Revenue*

IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with ~~IPSAS 9~~IPSAS 47 (for example, the proceeds of a transaction ~~sale~~ that does not qualify for recognition as revenue), the first-time adopter recognizes the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received. It shall derecognize the liability and recognize the revenue in its statement of financial performance when the recognition criteria in ~~IPSAS 9~~IPSAS 47 are met.

…

Summary of Transitional Exemptions and Provisions Included in IPSAS 33, *First-time Adoption of Accrual Basis IPSAS*

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSAS.

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional	3 year transitional	3 year transitional	3 year transitional	Elimination of transactions,	Other

			relief for recognition	relief for measurement	relief for recognition and/or measurement	relief for disclosure	balances, revenue and expenses	
…	…	…	…	…	…	…	…	…
~~IPSAS 9,~~ ~~*Revenue from Exchange Transactions*~~	~~√~~				~~√~~ ~~To extent that 3 year relief period was adopted for assets and/or liabilities~~			
…	…	…	…	…	…	…	…	…
~~IPSAS 11,~~ ~~*Construction Contracts*~~	~~√~~							
…	…	…	…	…	…	…	…	…
~~IPSAS 23,~~ ~~*Revenue from Non-Exchange Transactions*~~			~~√~~ ~~All non-exchange revenue not recognized under previous basis of accounting~~	~~√~~ ~~All non-exchange revenue recognized under previous basis of accounting~~	~~√~~ ~~To the extent that 3 year relief period was adopted for assets and/or liabilities~~			
IPSAS 47, *Revenue*			√ All revenue not recognized under previous basis of accounting	√ All revenue recognized under previous basis of accounting	√ To the extent that 3 year relief period was adopted for assets and/or liabilities			

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS

…

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
…	…	…	…
~~IPSAS 9:~~ • ~~Relief for recognition and/or measurement of revenue related to adoption of three year relief period for recognition and/or measurement of financial instruments~~			~~√~~
…	…	…	…
IPSAS 47: • Relief for recognition and/or measurement of revenue related to adoption of three-year relief period for recognition and/or measurement of assets and/or liabilities			√

…

Amendments to IPSAS 35, *Consolidated Financial Statements*

Paragraph AG13 is amended, and paragraph 79F is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

79F. **Paragraph AG13 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.**

…

Application Guidance

…

Assessing Control

…

Power

…

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

…

(c) Collecting revenue ~~through non-exchange transactions~~;

…

…

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraphs 34, 79, 115, AG58, and AG86 are amended, and paragraph 126H is added. New text is underlined and deleted text is struck through.

…

Accounting for Amalgamations

…

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

…

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

…

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with ~~IPSAS 23,~~ ~~*Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*.

…

The Acquisition Method of Accounting

…

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

…

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Acquisition)

…

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with ~~IPSAS 23~~ IPSAS 47.

…

Subsequent Measurement and Accounting

…

Contingent Liabilities

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition at the higher of:

(a) The amount that would be recognized in accordance with IPSAS 19; and

(b) The amount initially recognized less, if appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with ~~IPSAS 9,~~ ~~*Revenue from Exchange Transactions*~~ IPSAS 47.

This requirement does not apply to contracts accounted for in accordance with IPSAS 41, *Financial Instruments.*

…

Effective Date

…

126H. **Paragraphs 34, 79, 115, AG58, and AG86 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.**

…

Application Guidance

…

Accounting for Amalgamations

…

Forgiveness of Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraphs 33–34).

…

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*.

…

Accounting for Acquisitions

…

Forgiveness of Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraphs 78–79)

…

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with ~~IPSAS 23~~ IPSAS 47.

…

Illustrative Examples

…

Accounting for Amalgamations

…

Eliminating Transactions between the Combining Operations – Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

…

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had ~~provided~~ entered into a binding arrangement with COB to provide COB with a ~~grant~~ transfer of CU700 to be used in the provision of an agreed number of training courses (i.e., the compliance obligation).

IE164. The ~~grant~~ transfer ~~was subject a condition that the grant would~~must be returned proportionately to the number of training courses not delivered. ~~At the~~ Immediately prior to the amalgamation ~~date~~, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of ~~its performance~~ the unsatisfied portion of its compliance obligation, in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the ~~grant~~ transfer, but accounted for the full CU700 as an expense.

…

Forgiveness of Amounts of Tax Due in an Amalgamation

Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33–34 and AG57–AG58 of IPSAS 40

…

IE176. MF accounts for tax receivable in accordance with ~~IPSAS 23~~ IPSAS 47, and would recognize an adjustment for the tax forgiven.

…

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40

IE192. …

		COA (CU)	COB (CU)
54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue from ~~exchange transactions~~ compliance obligations in binding arrangements	2,681	25,377
	…	…	…

…

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78–79 and AG85–AG87 of IPSAS 40

…

IE250. MF accounts for tax receivable in accordance with ~~IPSAS 23~~ IPSAS 47, and would recognize an adjustment for the tax forgiven.

…

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE ~~provided~~ entered into a binding arrangement with TE to provide TE ~~with~~ a ~~grant~~ transfer of CU800 to be used in the provision of an agreed number of training courses to the employees of TE (i.e., the compliance obligation).

IE264. The ~~grant~~ transfer was subject to a ~~condition~~ compliance obligation that the ~~grant~~ transfer would be returned proportionately to the number of training courses not delivered. ~~At the~~ Immediately prior to the acquisition ~~date~~, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of ~~its performance~~ the unsatisfied portion of its compliance obligation, in accordance with ~~IPSAS 23~~ IPSAS 47. Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the ~~grant~~ transfer, but accounted for the full CU800 as an expense.

…

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158 are amended, and paragraph 156G is added. New text is underlined and deleted text is struck through.

…

Scope

2. **This Standard shall be applied by all entities to all types of financial instruments except:**

…

(j) **The initial recognition and initial measurement of rights and obligations arising from ~~non-exchange~~ revenue transactions to which ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*, applies~~; except as described in~~ (see paragraph AG6).**

…

3. **The impairment requirements of this Standard shall be applied to those rights arising from ~~IPSAS 9, Revenue from Exchange Transactions~~IPSAS 47, *Revenue*, ~~and IPSAS 23~~ transactions ~~which give rise to financial instruments~~ for the purposes of recognizing impairment gains or losses.**

…

Recognition and Derecognition

…

Derecognition of Financial Liabilities

…

37. **The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a non-exchange transaction, an entity applies ~~IPSAS 23~~ IPSAS 47.**

…

Classification

…

Classification of Financial Liabilities

45. An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:

…

(c) Financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 45(a) or (b) applies) subsequently measure it at the higher of:

(i) …; and

(ii) The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortization~~ revenue recognized in accordance with the principles of ~~IPSAS 9~~IPSAS 47.

(d) Commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 45(a) applies) subsequently measure it at the higher of:

(i) …; and

(ii) The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortization~~ revenue recognized in accordance with the principles of ~~IPSAS 9~~IPSAS 47.

…

…

Measurement

Initial Measurement

…

60. Despite the requirement in paragraph 57, at initial recognition, an entity may measure short-term receivables at their transaction consideration (as defined in IPSAS 47) if the short-term receivables do not contain a significant financing component (in accordance with IPSAS 47, or when the entity applies the practical expedient in paragraph 126 of IPSAS 47) ~~and payables at the original invoice amount if the effect of discounting is immaterial~~. An entity may measure short-term payables at the transaction consideration if the effect of discounting is immaterial.

…

Impairment

…

Simplified Approach for Receivables and Binding Arrangement Assets

87. **Despite paragraphs 75 and 77, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:**

(a) **Receivables or binding arrangement assets that result from ~~exchange~~ transactions ~~that are~~ within the scope of ~~IPSAS 9~~IPSAS 47 ~~and non-exchange transactions within the scope of IPSAS 23~~ and that:**

(i) **Do not contain a significant financing component in accordance with IPSAS 47 (or when the entity applies the practical expedient in accordance with paragraph 126 of IPSAS 47);**

(ii) **Contain a significant financing component in accordance with IPSAS 47, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all receivables or binding arrangement assets but may be applied separately to receivables and binding arrangement assets.**

(b) …

…

Effective Date

…

156G. **Paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158 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.

…

Application Guidance

…

Scope

…

AG2. This Standard does not change the requirements relating to employee benefit plans that comply with the relevant international or national accounting standard on accounting and reporting by retirement benefit plans and royalty agreements based on the volume of sales or service revenues that are accounted for under ~~IPSAS 9, *Revenue from Exchange Transactions*~~IPSAS 47, *Revenue*.

…

AG5. Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2(e)):

(a) Although a financial guarantee contract meets the definition of an insurance contract in ~~IFRS 4~~ the scope of the relevant international or national accounting standard dealing with insurance contracts if the risk transferred is significant, the issuer applies this Standard. Nevertheless, an entity may elect, under certain circumstances, to treat financial guarantee contracts as insurance contracts of financial instruments using IPSAS 28 if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or the relevant international or national accounting standard on insurance contracts to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognize a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through surplus or deficit or unless paragraphs 26–34 and AG32–AG38 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

(i) …; and

(ii) The amount initially recognized less, when appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with the principles of ~~IPSAS 9~~IPSAS 47 (see paragraph 45(c)).

…

(c) If a financial guarantee contract was issued in connection with the ~~sale~~ provision of goods, the issuer applies ~~IPSAS 9~~IPSAS 47 in determining when it recognizes the revenue from the guarantee and from the ~~sale~~ provision of goods.

AG6. ~~Rights and obligations (assets and liabilities) may arise from non-exchange revenue transactions, for example, an entity may receive cash from a multi-lateral agency to perform certain activities. Where the~~

~~performance of those activities is subject to conditions, an asset and a liability is recognized simultaneously. Where the asset is a financial asset, it is recognized in accordance with IPSAS 23, and initially measured in accordance with IPSAS 23 and this Standard. A liability that is initially recognized as a result of conditions imposed on the use of an asset is outside the scope of this Standard and is dealt with in IPSAS 23.~~ A right from a revenue transaction that meets the definition of an asset is initially recognized and measured in accordance with IPSAS 47. Similarly, an obligation from a revenue transaction that meets the definition of a liability is initially recognized and measured in accordance with IPSAS 47. After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~IPSAS 23~~ IPSAS 47 is no longer appropriate, an entity considers whether a financial liability should be recognized in accordance with this Standard. Other liabilities that may arise from ~~non-exchange~~ revenue transactions are recognized and measured in accordance with this Standard if they meet the definition of a financial liability in IPSAS 28.

…

Recognition and Derecognition

…

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with ~~the relevant revenue standard (see IPSAS 9and IPSAS 23)~~IPSAS 47. Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include, but are not limited to, borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual provisions of the instrument in accordance with paragraph 10 and classified in accordance with paragraphs 45 and 46. The financial liabilities shall be initially recognized in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

Continuing Involvement in Transferred Assets

AG34. The following are examples of how an entity measures a transferred asset and the associated liability under paragraph 27.

All Assets

(a) If a guarantee provided by an entity through a contract to pay for default losses on a transferred asset prevents the transferred asset from being derecognized to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of the consideration received in the transfer that the entity could be required to repay ('the guarantee amount'). The associated liability is initially measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognized in surplus or deficit ~~on a time proportion basis~~ when (or as) the compliance obligation is satisfied (~~see IPSAS 9~~ in accordance with the principles of IPSAS 47) and the carrying value of the asset is reduced by any loss allowance.

…

…

Derecognition of Financial Liabilities

…

AG43. If a third party assumes an obligation of an entity, and the entity provides either no or only nominal consideration to that third party in return, an entity applies the derecognition requirements of this Standard as well as paragraphs ~~84 to 87~~AG155–AG158 of ~~IPSAS 23~~ IPSAS 47.

AG44. Lenders will sometimes waive their right to collect debt owed by a public sector entity, for example, a national government may cancel a loan owed by a local government. This waiver of debt would constitute a legal release of the debt owing by the borrower to the lender. Where an entity's obligations have been waived as part of a non-exchange transaction it applies the derecognition requirements of this Standard as well as paragraphs ~~84–87~~ AG155–AG158 of ~~IPSAS 23~~ IPSAS 47.

…

Measurement

~~Non-Exchange~~ Revenue Transactions

AG114. The initial recognition and measurement of assets and liabilities resulting from ~~non-exchange~~ revenue transactions is dealt with in ~~IPSAS 23~~ IPSAS 47. Assets resulting from ~~non-exchange~~ revenue transactions can arise out of both contractual and non-contractual arrangements (see IPSAS 28 paragraphs AG20 and AG21). Where these assets arise out of contractual arrangements and otherwise meet the definition of a financial instrument, they are:

(a) Initially recognized in accordance with ~~IPSAS 23~~ IPSAS 47;

(b) Initially measured:

(i) At ~~fair value~~ the transaction consideration using the principles in ~~IPSAS 23~~ IPSAS 47; and

(ii) Taking account of transaction costs that are directly attributable to the acquisition of the financial asset in accordance with paragraph 57 of this Standard, where the asset is subsequently measured other than at fair value through surplus or deficit.

…

Initial Measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

…

AG124. An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs ~~42–58~~ AG152–AG153 of ~~IPSAS 23~~ IPSAS 47. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155. Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG115).

AG125. Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows:

(a) Where the loan is received by an entity, the difference is accounted for in accordance with ~~IPSAS 23~~ IPSAS 47.

…

Illustrative Examples are provided in paragraph ~~IG54 of IPSAS 23~~ IE296–IE299 of IPSAS 47 as well as paragraphs IE153 ~~to~~ –IE161 accompanying this Standard.

…

Equity Instruments Arising from Non-Exchange Transactions

…

AG129. At initial recognition of such transactions, an entity shall analyze the substance of the arrangement and assess whether the intention at the outset is the provision or receipt of resources by way of a non-exchange transaction. To the extent that the transaction, or component of the transaction, is a non-exchange transaction, any assets or revenues arising from the transaction are accounted for in accordance with ~~IPSAS 23~~ IPSAS 47. The entity providing the resources shall recognize the amount as an expense in surplus or deficit at initial recognition.

…

Valuing Financial Guarantees Issued through a Non-Exchange Transaction

…

AG132. In paragraph 9, "financial guarantee contract" is defined as "a contract that requires 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 or modified terms of a debt instrument." Under the requirements of this Standard, financial guarantee contracts, like other financial assets and financial liabilities, are required to be initially recognized at fair value. Paragraphs 66–68 of this Standard provide commentary and guidance on determining fair value and this is complemented by Application Guidance in paragraphs AG144–AG155. Subsequent measurement for financial guarantee contracts is at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized less, when appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~IPSAS 47.

AG133. In the public sector, guarantees are frequently provided by way of non-exchange transactions, i.e., at no or nominal consideration. This type of guarantee is provided generally to further the entity's economic and social objectives. Such purposes include supporting infrastructure projects, supporting corporate entities at times of economic distress, guaranteeing the bond issues of entities in other tiers of governments and the loans of employees to finance motor vehicles that are to be used for performance of their duties as employees. Where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and whether the consideration represents a fair value. If the consideration does represent a fair value, entities should recognize the financial guarantee at the amount of the consideration. Subsequent measurement should be at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized, less, when appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with ~~IPSAS 9~~IPSAS 47. Where the entity concludes that the consideration is not a fair value, an entity determines the carrying value at initial recognition in the same way as if no consideration had been paid.

…

Amortized Cost Measurement

Effective Interest Method

…

AG158. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with ~~IPSAS 9~~IPSAS 47 include:

…

…

Basis for Conclusions

…

Scope

BC6. Assets and liabilities may arise out of contractual non-exchange revenue transactions. At the time this Standard was developed, ~~The~~the initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions ~~is~~ was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 ~~does~~ 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.

BC7. When this Standard was being developed, ~~The~~ the IPSASB agreed that where an asset acquired in a non-exchange transaction is a financial asset, an entity:

- Initially ~~recognizes~~ recognized the asset using IPSAS 23; and
- Initially ~~measures~~ measured the asset using IPSAS 23 and, considers the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

As IPSAS 23 ~~does~~ 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.

BC8. For liabilities, the IPSASB agreed, when developing this Standard, 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.

BC9. At the time IPSAS 41 was finalized, t~~T~~he 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

BC10. When the IPSASB developed this Standard, ~~T~~the IPSASB acknowledged that there is 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 ~~requires~~ required that assets acquired in a non-exchange revenue transaction ~~are~~ were measured initially at fair value. This Standard requires 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.

BC11. At that time,~~The~~ 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.

Equity Instruments Arising from Non-Exchange Transactions

BC12. In the public sector, equity instruments are sometimes obtained with minimal cash flow expectations as a way to provide funding to another public sector entity for providing a service. The IPSASB considered the need for additional guidance similar to concessionary loans for such equity instruments acquired at non-market terms. ~~While t~~The IPSASB agreed that there are fundamental differences between the economic substance of such arrangements compared to concessionary loans. The IPSASB also agreed that, when this Standard was developed, the guidance in IPSAS 23 and the Standard sufficiently ~~address~~ addressed the recognition and measurement of such transactions, and additional guidance ~~is~~ was included to provide clarity.

…

Analyzing the Substance of Equity Instruments Arising from Non-Exchange Transactions

BC26. When developing this Standard, ~~The~~the IPSASB considered that the existing requirements and guidance in IPSAS 28 and IPSAS 23 already appropriately addressed these matters. IPSAS 28 defines an equity instrument and explains how to determine whether a financial instrument is a financial liability or an equity instrument. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, paragraph 28, ~~includes~~ included examples of contributions from owners. Nevertheless, the IPSASB agreed to develop implementation guidance (paragraph G.4) to support constituents in analyzing the substance of financial instruments arising from non-exchange transactions.

…

Illustrative Examples

…

Concessionary Loans (Paragraphs AG118~~–AG126~~AG127)

Example 20—Receipt of a Concessionary Loan (Interest Concession)

…

IE154. The local authority has received a concessionary loan of CU5 million, which will be repaid at 5 percent below the current market interest rate. The difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market-related rate of interest, is recognized in accordance with ~~IPSAS 23~~ IPSAS 47, *Revenue*.

IE155. The journal entries to account for the concessionary loan are as follows:

1. On initial recognition, the entity recognizes the following:

Dr	Bank	5,000,000	
Cr	Loan (refer to Table 2 below)		4,215,450
Cr	Liability or ~~non-exchange~~ revenue		784,550

Recognition of the receipt of the loan at fair value

~~IPSAS 23~~ IPSAS 47 is considered in recognizing either a liability or revenue for the off-market portion of the loan. Paragraph ~~IE54~~IE302 of that Standard provides journal entries for the recognition and measurement of the off-market portion of the loan deemed to be ~~non-exchange~~ revenue.

…

…

Implementation Guidance

…

Section G Concessionary Loans and Non-Exchange Equity Transactions

G.1 Sequencing of "Solely Payments of Principal and Interest" Evaluation for a Concessionary Loan

If an entity issues a concessionary loan (financial asset), when does it assess classification for subsequent measurement purposes?

An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a ~~grant~~ transfer, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs ~~42–58~~AG152–AG153 of ~~IPSAS 23~~ IPSAS 47, *Revenue*. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction ~~price~~ consideration represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155.

…

Amendments to IPSAS 43, *Leases*

Paragraphs 18, 98, 99, 102, and 120 are amended, and paragraph 103D is added. New text is underlined, and deleted text is struck through.

…

Identifying a Lease (see paragraphs AG10–AG34)

…

Lessor

18. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying ~~IFRS 15, *Revenue from Contracts with Customers*~~IPSAS 47, *Revenue*.

…

Sale and Leaseback Transactions

…

Assessing Whether the Transfer of the Asset is a Sale

98. An entity shall apply the requirements for determining when a ~~performance~~ compliance obligation is satisfied in ~~IFRS 15~~IPSAS 47, *Revenue* to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the Asset is a Sale

99. If the transfer of an asset by the seller-lessee satisfies the requirements of ~~IFRS 15~~IPSAS 47, *Revenue* to be accounted for as a sale of the asset:

…

Transfer of the Asset is not a Sale

102. If the transfer of an asset by the seller-lessee does not satisfy the requirements of ~~IFRS 15~~IPSAS 47, *Revenue* to be accounted for as a sale of the asset:

…

Sale and Leaseback Transactions Before the Date of Initial Application

120. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in ~~IFRS 15~~IPSAS 47, *Revenue* to be accounted for as a sale.

…

Effective Date

…

103D. **Paragraphs 18, 98, 99, 102, and 120 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.**

…

Basis for Conclusions

…

Cross-Reference to IFRS 15 Revenue from Contracts with Customers

…

BC99. When developing this Standard, the ~~The~~ IPSASB decided to refer to IFRS 15 instead of the relevant national or international accounting standard dealing with revenue from contracts with customers, where appropriate, because it is consistent with the:

(a) Control-based approach to lessee accounting in IPSAS 43; and

(b) IFRS 16 reference to IFRS 15 in the corresponding requirements.

BC100. In reaching this decision, the IPSASB noted that these references will be updated when ~~a new IPSAS on Revenue~~ the new IPSAS 47, *Revenue* is issued.

…

Effective Date

…

BC102. In deciding the effective date, the IPSASB considered that:

…

(c) It provides sufficient time for the IPSASB to finalize ~~a new IPSAS on Revenue~~ the new IPSAS 47 and other IPSAS under development in the IPSASB's Work Program, which may have consequential amendments to IPSAS 43;

…

BC103. The IPSASB decided to permit the earlier application of IPSAS 43, instead of encouraging it, because, ideally, the Standard should be applied together with ~~the new IPSAS on Revenue~~ the new IPSAS 47 aligned with IFRS 15. ~~However, the principles in IFRS 15 are currently under consideration by the IPSASB.~~

BC104. The IPSASB noted during its development of this Standard that, f~~F~~or those public sector entities that elect to apply IPSAS 43 early, there might be greater complexity in analyzing revenue transactions under different principles: some lease transactions would be accounted for according to the principles in IFRS 15, while the revenue from other non-lease transactions will still be accounted for according to the principles in IPSAS 9, *Revenue from Exchange Transactions*, until the IPSASB publishes a new IPSAS on Revenue. However, cross-referencing to IFRS 15, where appropriate for revenue recognition, provides a temporary solution that allows public sector entities to prepare for the future changes that might be required when the IPSASB completes its Revenue project and issues the new IPSAS 47.

…

Illustrative Examples

…

Sale and Leaseback Transactions (See paragraphs 97–102)

…

Example 24 – Sale and Leaseback Transaction

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a ~~performance~~ compliance obligation is satisfied in ~~IFRS 15 Revenue from Contracts with Customers~~IPSAS 47, Revenue. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback. This example ignores any initial direct costs.

…

Amendments to IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*

…

Implementation Guidance

…

Presenting discontinued operations in the statement of financial performance (paragraph 42)

…

Example 11

…

	20X2	**20X1**
Continuing operations		
Revenue		
Taxes	X	X
~~Fees, fines, penalties, and licenses~~Other compulsory contributions and levies	X	X
~~Revenue from exchange transactions~~	~~X~~	~~X~~
Transfers ~~from other government entities~~without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total ~~R~~revenue	X	X

…

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraphs 64, 67 and 68 are amended, and paragraph 87A is added. New text is underlined and deleted text is struck through.

…

Derecognition

…

64. 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). ~~In determining t~~ The date of disposal of an item~~, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods~~ 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, *Revenue*. ~~and~~ IPSAS 43 applies to disposal by a sale and leaseback.

…

67. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of property, plant, and equipment is ~~recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable~~ 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.

68. However, an entity that, in the course of its activities, routinely ~~sells~~ 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 ~~proceeds~~ amount of consideration from the ~~sale~~ disposal of such assets shall be recognized as revenue in accordance with ~~IPSAS 9~~ IPSAS 47. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.

…

Effective Date

…

87A. **Paragraphs 64, 67, and 68 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.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 47.

Introduction

BC1. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006 and was developed to provide guidance on how to account for revenue that arose from non-exchange transactions, which account for a large proportion of public sector revenue. The issuance of IPSAS 23 completed the suite of revenue standards, together with IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Constructions Contracts* which were both issued in July 2001. IPSAS 9 and IPSAS 11 were based on IAS 18, *Revenue* and IAS 11, *Constructions Contracts*, respectively, which were both issued by the International Accounting Standards Board (IASB).

BC2. Since IPSAS 23 became applicable, the IPSASB became aware of constituents' concerns regarding the application of the Standard, in particular:

(a) Difficulty in making the distinction between exchange and non-exchange transactions;

(b) Difficulty in making the distinction between a condition and a restriction;

(c) Lack of guidance on multi-year funding arrangements;

(d) Lack of guidance on taxation received in advance of the period in which it is intended to be used;

(e) Lack of guidance on accounting for capital grants; and

(f) Lack of guidance on accounting for services in-kind.

BC3. In May 2014, the IASB published the final version of IFRS 15, *Revenue from Contracts with Customers*, which provides a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.

BC4. In 2015, the IPSASB commenced work on a project to update IPSAS that dealt with accounting for revenue as part of the IPSASB's alignment program which aims to align IPSAS with IFRS® Standards. In August 2017, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*. In addition to potential alignment with IFRS 15, the CP also gave the IPSASB an opportunity to re-evaluate and address some of the application issues with the guidance for non-exchange revenue transactions in IPSAS 23. In particular, the IPSASB considered the question of whether accounting approaches based on whether a revenue transaction is with or without performance obligations are more appropriate than distinguishing between exchange and non-exchange transactions. Based on this new thinking, the CP classified public sector revenue transactions into the following categories:

(a) Transactions with no performance obligations or stipulations. Under the current framework in IPSAS 23[8], revenue transactions with stipulations involved the transfer of assets to a resource recipient with the expectation and/or understanding that they will be used in a particular way and, therefore, that the resource recipient entity will act or perform in a particular way;

[8] IPSAS 23 included the concept of stipulations, which are terms in laws or regulations, or a binding arrangement, that are imposed on the use of a transferred asset. Stipulations may be in the form of conditions (stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be (1) consumed by the recipient as specified, or (2) returned to the transferor), or restrictions (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).

(b) Transactions with stipulations, as described in IPSAS 23, that do not meet all the requirements of IFRS 15; and

(c) Transactions that meet all the requirements of IFRS 15 that involve the transfer of promised goods or services to customers and arise from a contract with a customer which establishes performance obligations.

BC5. The majority of CP respondents agreed that there are different types of revenues in the public sector, and supported a classification approach based on whether the revenue transaction has performance obligations. In addition, respondents noted, and the IPSASB agreed, that the concepts of stipulations, which could be in the form of restrictions or conditions, in the exchange/non-exchange approach in IPSAS 23 was difficult to apply in practice.

Development of Exposure Draft (ED) 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations

BC6. Based on responses to the CP and subsequent discussions, the IPSASB decided to move away from the exchange/non-exchange distinction and develop accounting approaches based on whether the transaction is with or without performance obligations.

BC7. The accounting approaches were presented in two revenue Exposure Drafts (EDs), ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*. The issuance of two separate EDs enabled the IPSASB to explicitly demonstrate IFRS alignment and maintain the existing allocation of guidance for different revenue transaction types:

(a) ED 70 presented guidance for exchange-type transactions, akin to those in the private sector, and is based on the requirements of IFRS 15, modified as appropriate for public sector entities and to reflect the requirements of other IPSAS. ED 70 would replace IPSAS 9 and IPSAS 11, which were principally based on IAS 18 and IAS 11 respectively; and

(b) ED 71 presented guidance for non-exchange-type transactions, which are the majority of transactions in the public sector. ED 71 would replace IPSAS 23.

BC8. In developing the proposed Standards, the IPSASB:

(a) Considered the guidance on revenue in the *Government Finance Statistics Manual 2014 (GFSM 2014)* with the aim of avoiding unnecessary differences;

(b) Considered guidance developed by national standard setters and bodies with oversight responsibilities for public sector entities in developing additional examples that illustrated the public sector environment;

(c) Considered the aspects of IPSAS 9 and IPSAS 11 that had been developed specifically to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the Standard;

(d) Made changes to aspects of IPSAS 23 to address the concerns noted by constituents[9];

(e) Applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 15 were made in circumstances where public sector issues were identified that warranted a departure. As part of its development process, the IPSASB debated a number of issues and whether departure was justified; and

(f) Agreed to retain the existing text of IFRS 15 wherever consistent with existing IPSAS and made the following modifications:

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9 As a result, Basis for Conclusions paragraphs from IPSAS 23 that relate to retained IPSAS 23 text have been incorporated.

(i) Changes to the definitions and terminology in IFRS 15 to ensure consistency with The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework), consistency with definitions and terminology in existing IPSAS, and to reflect the public sector;

(ii) Addition of application guidance on public sector-specific issues or issues which may be more prevalent in the public sector;

(iii) "Amendments to Other Standards" in IFRS 15 were replaced with "Amendments to Other IPSAS" to reflect IPSAS literature. Where applicable, references to other specific IFRS Standards were also amended to reflect references to the corresponding IPSAS;

(iv) Deletion of illustrative examples which had limited or no applicability to the public sector; and

(v) Modification of IFRS 15 examples to reflect the public sector context, as well as the addition of public sector-specific examples to assist with the application of ED 70.

BC9. In February 2020, the IPSASB published ED 70 and ED 71, together with ED 72, *Transfer Expenses*. The three exposure drafts were released together to highlight the linkages between the accounting for revenue and transfer expenses.

Feedback from Constituents on ED 70 and ED 71

BC10. The IPSASB received a broad and diverse set of comment letters in response to ED 70, ED 71, and ED 72, respectively. During its review of ED responses, the IPSASB noted that, overall, the comments did not point to substantial concerns about the revenue accounting principles; rather, the responses generally encouraged clarifications of and additional guidance for the accounting principles, and further consideration on the structure and flow of guidance, to support application in practice.

BC11. The IPSASB also noted that constituents continued to support that there are different types of revenues in the public sector, and different transactions may warrant separate accounting principles. The IPSASB considered feedback from the CP and ED processes together and acknowledged that, while the exchange/non-exchange distinction is considered difficult to apply in practice for the purposes of classifying and accounting for revenue, the distinction still exists as an underlying economic concept. Put differently, while the IPSASB decided to move away from using exchange/non-exchange as defined terms to classify revenue, it remains an appropriate concept to describe the economic substance of transactions in the public sector.

BC12. Some ED respondents noted that it was difficult to determine the applicable ED for their revenue transactions, and sought clarity on the interrelation between ED 70 and ED 71, and the application of the proposed standards in practice. Some of this confusion was attributed to the distinction between performance obligations and present obligations, which are in the scope of ED 70 or ED 71, respectively.

Discussion with the IPSASB Consultative Advisory Group (CAG)

BC13. The IPSASB consulted the CAG at its December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

IPSASB's Response to Feedback on ED 70 and ED 71

BC14. In light of the responses to ED 70 and ED 71, the IPSASB decided to revisit its decisions on the proposed structure of revenue guidance and how it can better clarify the proposed accounting principles and related disclosure requirements for revenue transactions in the public sector. Key changes include:

(a) Retaining binding arrangement as a fundamental concept for revenue accounting, which dictates the applicable accounting model (paragraphs BC15–BC17);

(b) Presenting accounting guidance for revenue transactions in a single IPSAS, to more clearly communicate the prevalence of revenue types in the public sector and the fundamental concepts for revenue accounting (paragraphs BC18–BC19); and

(c) Using a single concept, compliance obligation, for an entity's legally binding obligation arising from a binding arrangement (paragraphs BC20–BC30).

The Concept of a Binding Arrangement

BC15. The majority of respondents to ED 70 and ED 71 supported the use and concept of binding arrangements in the public sector. Considering constituent comments, the IPSASB also noted that while revenue without performance obligations and revenue with performance obligations differ in economic substance, the latter is expected to be a very small subset of public sector transactions and the existence of a binding arrangement is of greater importance in revenue accounting. Thus, the IPSASB decided to retain the concept of a binding arrangement as a fundamental concept for revenue accounting.

BC16. The IPSASB also confirmed that enforceability is an integral component of a binding arrangement, and the specific details within binding arrangements would clearly specify each party's rights and obligations (i.e., what each party is held accountable to satisfy, and how they will be held accountable). The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of transactions with binding arrangements compared to transactions without binding arrangements. The IPSASB also clarified that enforceability can arise from various mechanisms, as long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations, by imposing consequences on parties that do not satisfy their obligations.

BC17. The focus on assessing the ability to enforce a binding arrangement is integral for the overall goal of better public financial management. From the broader public financial management perspective, the purpose and intention of enforceable transactions, such as binding arrangements, is to allow the parties in the arrangement to achieve specific objectives. The ability to enforce these arrangements ensures that an entity is held accountable and is able to hold other engaged parties accountable, thereby facilitating strong public financial management. Appropriate reporting and disclosure of information related to these arrangements enables public sector entities to be transparent to their constituents.

One Revenue IPSAS

BC18. Based on its review of constituent concerns, discussions on key revenue accounting concepts and principles, and subsequent analysis of presentation options, the IPSASB decided to restructure and present the accounting guidance, previously proposed in ED 70 and ED 71, as a single standard that:

(a) Is titled "*Revenue*", with clear structure and references, which presents a single source of guidance for all public sector revenues;

(b) Requires an entity to consider up front whether the transaction is without or with a binding arrangement, based on its conclusion in BC15; and

(c) Has separate guidance for revenue without binding arrangements, and revenue with binding arrangements.

BC19. The IPSASB concluded that this revised structure and presentation would better reflect the prevalence of public sector revenues, with guidance related to the majority of public sector revenues presented first, and overall be more appropriate from a public sector perspective.

Compliance Obligation

BC20. The IPSASB noted that most respondents to ED 70 and ED 71 acknowledged that there are separate types of revenue in the public sector and generally agreed with the distinction between "performance obligations", as defined in ED 70, and "present obligations", as described in ED 71. However, some ED respondents indicated that the distinction is not clear or is difficult to apply in practice, and as a consequence, it was unclear which proposed standard and set of principles would apply to a specific transaction.

BC21. As a result of these comments, the IPSASB:

(a) Reflected on the similarities and differences between "present obligations" as proposed in ED 71 and "performance obligations" as proposed in ED 70;

(b) Considered whether the differences warranted different accounting principles for revenue with present obligations compared with revenue with performance obligations; and

(c) Clarified the proposed guidance to better explain the concepts in a principled manner.

Similarities and Differences

BC22. During its review of comments from respondents, the IPSASB acknowledged that present obligations and performance obligations both:

(a) Arise from transactions with binding arrangements, and thus are legally binding obligations (i.e., enforceable through legal or equivalent means);

(b) Are described with sufficient specificity in the binding arrangement in order to enable each party in the binding arrangement to hold the other party or parties accountable to satisfy their respective obligations in a specified manner, in compliance with the terms and conditions of that binding arrangement; and

(c) Are units of account to determine distinct components in a binding arrangement, which are used as mechanisms to recognize and measure revenue as an entity satisfies its obligations in that binding arrangement.

BC23. Reflecting on the differences, the IPSASB clarified that the notion of a present obligation was intended to reflect non-exchange type public sector transactions arising from binding arrangements previously covered by IPSAS 23, whereas a performance obligation was intended to reflect exchange-type public sector transactions previously covered by IPSAS 9 and IPSAS 11 (and comparable to commercial transactions in the private sector, in scope of IFRS 15). Consistent with its decision to acknowledge the economic substance of these transactions, but to move away from using exchange and non-exchange to classify revenue, the IPSASB further considered how to better distinguish the two types of obligations in a binding arrangement.

BC24. A performance obligation as presented in ED 70 is an entity's obligation that requires a transfer to an external party (i.e., from the entity back to the transfer provider (purchaser) or to an identified third-party beneficiary). The outputs from the entity's use of resources in a performance obligation as presented in ED 70 are transferred out of the entity in the form of distinct goods or services to another party. This would not capture public sector revenue transactions, like capital transfers, where the promise to use resources in a specified manner, on their own or together with other resources, results in using resources for specific goods or services internally. A legally binding obligation which requires a transfer out of the entity to an external party generally requires greater specificity and clearly identifiable actions for the entity to perform, thereby providing more objective and potentially more specific identification, recognition, and measurement of revenue.

Impact on Accounting Principles

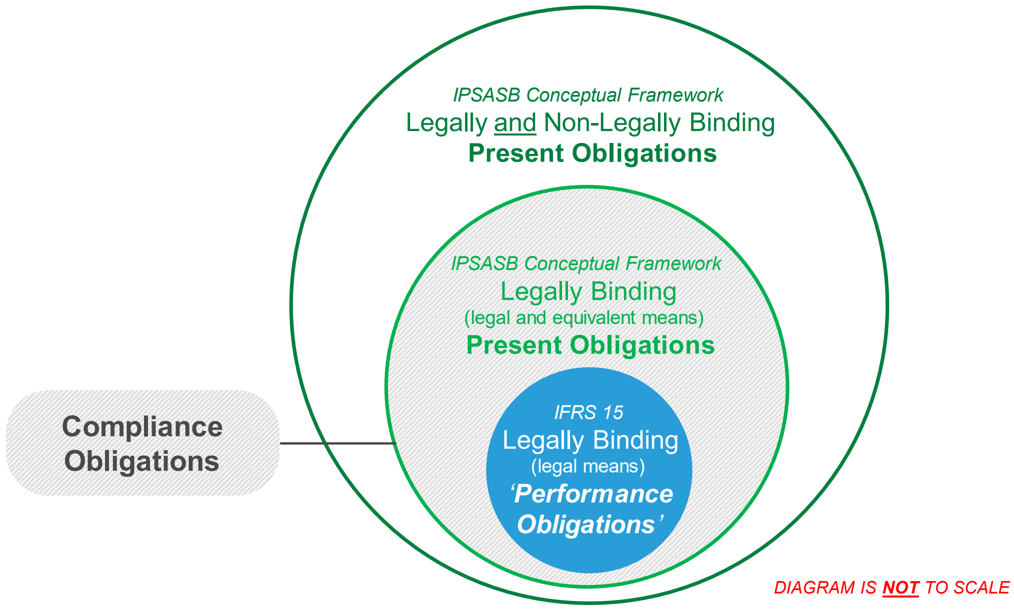
BC25. The IPSASB noted that, while there are identifiable differences between these two types of revenue and the party receiving the distinct goods or services from the entity's satisfaction of its obligations in a binding arrangement may differ, the underlying concept for present obligations and performance obligations are the same: both require the entity to use resources in a specified manner. Of significance is the enforceability of the binding arrangement from which the revenue arises, as this enforceability informs the recognition and measurement accounting principles to appropriately reflect the economic substance of revenue from binding arrangements. As such, the key accounting principles are consistent for both types of obligations in a binding arrangement.

Presenting Revised Guidance

BC26. The IPSASB's conclusion that the performance obligations in ED 70 are a subset of present obligations in ED 71 that comprise a minority of public sector revenues, and that key accounting principles are consistent for both types of obligations, were contributing factors to its decision to combine revenue guidance into a single IPSAS.

BC27. When considering how to clarify accounting guidance, the IPSASB noted that the concept of a "present obligation" in the revenue context is narrower than in the Conceptual Framework. A present obligation is a unit of account in revenue accounting, and is a legally binding obligation in a binding arrangement to use resources in compliance with the terms of the binding arrangement. Present obligations in the Conceptual Framework are legally or non-legally binding obligations, and are used more generally to describe an entity's obligations. A term other than "present obligation" would more clearly describe and define the concept for revenue accounting purposes.

BC28. Since performance obligations in ED 70 are a subset of present obligations, and both represent the notion of an enforceable promise or requirement arising from a transaction with a binding arrangement, the IPSASB decided to adopt the new term "compliance obligation" to describe all obligations arising from revenue transactions with binding arrangements. This notion of compliance is in relation to compliance with the terms and conditions in the entity's binding arrangement. This term and concept would encompass performance obligations (as presented in ED 70 and in alignment with IFRS 15, to capture revenues from transactions that transfer distinct goods or services to an external party) and present obligations (as presented in ED 71, and consistent with legally binding present obligations in the Conceptual Framework, to also capture revenues from public sector transactions that do not transfer distinct goods or services to an external party). The following diagram illustrates the relationship between "compliance obligation" and the previously used terms:



BC29. The IPSASB provided further guidance to highlight any additional considerations for the entity in applying the accounting principles to compliance obligations which require a transfer of specific distinct goods or services to an external party. Such compliance obligations to transfer goods or services to an external party generally entail a clear discharge of an entity's obligation in the binding arrangement. These additional considerations are intended to help an entity account for the deferral and recognition of revenue to better reflect the nature of such obligations.

BC30. The IPSASB's decision to have a single concept for obligations arising from revenue transactions with binding arrangements, along with the decision to present revenue guidance in a single IPSAS, also prompted the removal of redundant guidance proposed in the EDs related to scope considerations and measurement of transactions with components under the two proposed revenue standards.

Scope (paragraph 3)

Modification of IFRS 15 for Applicability to the Public Sector

BC31. The IPSASB modified the requirements of IFRS 15 to address public sector-specific transactions. This included using the concept of a binding arrangement, which is broader than a contract, in IPSAS 47 to allow for jurisdictions where government and public sector entities cannot enter into legal contracts but do enter into binding arrangements which are in substance the same as contracts.

BC32. The IPSASB modified enforceability to include mechanisms that are outside the legal system that are equivalent to legal means. This change was made because some binding arrangements in the public sector may arise and become enforceable through exercise of executive authority, legislative authority, cabinet or ministerial directives, and these binding arrangements would not be considered "contracts". The IPSASB also noted that legal or equivalent means is consistent with "legal obligation" as described in Chapter 5 of the Conceptual Framework, and is not a "non-legally binding obligation".

BC33. Public sector transactions may involve three parties: the resource provider, which provides the consideration; the entity, which receives the consideration and is responsible for using or transferring goods or services; and the third-party beneficiary, which can be an entity, individual or household, receiving those goods or services. While the IASB's educational materials refer to such three-party arrangements, they are not explicitly highlighted in IFRS 15. The third-party beneficiary concept was made more explicit in IPSAS 47, as three-party transactions are expected to be much more prevalent in the public sector.

Modification of IFRS 15 Illustrative Examples

BC34. Illustrative Examples are non-authoritative guidance which illustrate accounting principles using general fact patterns prevalent globally amongst public sector entities. The IPSASB adapted the Illustrative Examples from IFRS 15 using the following approach for ED 70 and ED 71:

(a) Where the underlying concepts illustrated by an example is applicable to the public sector, the example was modified to incorporate realistic fact patterns which could apply to public sector entities such as governments and intergovernmental organizations;

(b) Where the underlying concepts in an example only had limited or no applicability to the public sector, the example was removed. This applied to examples involving price concessions granted by suppliers to distributors to preserve the supply chain relationship, additional goods or services in the telecommunications sector, "slotting fees" paid by a supplier to a retailer, warranties, franchise rights, and costs incurred in a competitive bidding scenario; and

(c) Developed new public sector-specific examples to illustrate the additional application guidance on scope, three-party arrangements, enforceability, and the additional disclosure requirements.

BC35. After addressing comments from ED respondents, the IPSASB reviewed the proposed Illustrative Examples and:

(a) Retained examples that use general case facts to illustrate principles which remain relevant in the Standard's accounting models and application of complex principles to transactions that are both relevant and prevalent in the public sector. The retained examples were revised as necessary to better reflect the accounting principles in IPSAS 47;

(b) Removed examples that did not meet the retention criteria in BC35(a); and

(c) Added examples, using general fact patterns, to illustrate the application of accounting principles for capital transfers.

BC36. The IPSASB acknowledged that while the Illustrative Examples are not authoritative, an entity applying IPSAS 47 may find examples dealing with commercial transactions to be helpful if it is a party to such transactions. While commercial transactions may be relevant (i.e., may occur) in the public sector, the IPSASB expects such situations to be less prevalent (i.e., uncommon and thus with limited applicability) and decided to remove examples of relevant but not prevalent transactions to the public sector. The IPSASB noted that if a public sector entity is a party to commercial transactions, it may refer to IFRS 15 for additional Illustrative Examples of how an entity might apply the requirements of the Standard.

Non-monetary Exchanges between Entities in the Same Line of Business

BC37. In the discussion of non-monetary exchanges in paragraph 3(h) of IPSAS 47, the IPSASB replaced the example of non-monetary exchanges of oil between entities in the same line of business to facilitate sales to potential customers used in IFRS 15 with the exchange of electricity, because it is more relevant to the public sector.

Highlighting the Relationship Between IPSAS 47, Revenue, and IPSAS 48, Transfer Expenses

BC38. The IPSASB considered clarifying the scope and interaction between IPSAS 47 and IPSAS 48, *Transfer Expense*s, by defining the term "Transfer Revenue" in order to mirror the definition of "Transfer Expense" in IPSAS 48. Specifically, the IPSASB considered defining "Transfer Revenue" as a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without directly providing any good, service, or other asset in return.

BC39. While the IPSASB acknowledged that the definition was accurate and that it would be conceptually sound to highlight the mirroring relationship between transfer revenue and transfer expenses, the IPSASB ultimately decided not to introduce this term as a formal definition for the following reasons:

(a) A number of members were concerned that introducing a new definition relating to revenue may confuse constituents; and

(b) Transfer revenue would have been a subset of revenue in IPSAS 47. Separately defining this term when their recognition and measurement would have been the same as other types of revenue seemed to add an unnecessary level of complexity and duplication of guidance.

Onerous Contracts

BC40. The IPSASB considered if IPSAS 47 should include explicit guidance for binding arrangements that become onerous and noted that IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, which was developed based on IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to onerous contracts. While this guidance refers to "contracts", the IPSASB noted that IPSAS 19 would still be applicable for binding arrangements with compliance obligations that transfer goods or services to another party. Furthermore, binding arrangements with compliance obligations to use resources for goods or services internally would not meet the definition of an onerous contract because there are no exchange of assets or services. Therefore, the IPSASB concluded that the scope exclusion in paragraph 3 of IPSAS 47 and paragraph 1(c) of IPSAS 19 are sufficient, and incorporated a specific reference to IPSAS 19 in paragraph 79.

Compulsory Contributions and Levies to Social Security and Other Schemes

BC41. There is a variety of different arrangements for funding social security schemes across jurisdictions. Constituents commented that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.

BC42. The IPSASB concluded that such contributions are revenue transactions without binding arrangements, 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 in IPSAS 42. 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.

BC43. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this Standard.

Definitions (paragraphs 4–8)

General Alignment with Public Sector Terminology

BC44. In adapting IFRS 15 for use in the public sector, the IPSASB modified the following terms in IPSAS 47 to better align with terminology used in the public sector:

(a) All the references to “sell” or “sold” were replaced with the terms “provide” and “provided”, respectively. In addition to general alignment with public sector terminology, this change also accommodates the fact that in three-party revenue arrangements, goods or services are provided, rather than sold, by an entity to a third-party beneficiary;

(b) “Stand-alone selling price” was replaced with “stand-alone value”;

(c) “Customary business practices” was replaced with an entity’s “customary practices”;

(d) “Industry” was replaced with “sector”; and

(e) Editorial changes were made to the definition of “transaction consideration”.

Other changes in terminology and new definitions were added for public sector-specific reasons. These changes and additions are explained in paragraphs BC45–BC62.

Binding Arrangements

BC45. The IPSASB replaced all references to “contracts” in IFRS 15 with references to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities may not have the power to enter into legal contracts but nevertheless may have the authority to enter into binding arrangements. The IPSASB agreed that binding arrangements, for the purpose of IPSAS 47, should encompass rights that arise from legislative or executive authority, cabinet or ministerial directives. For clarity, the IPSASB also decided to explicitly specify in the definition that a binding arrangement confers both enforceable rights and enforceable obligations on the parties to the arrangement. To assist with the expanded concept of binding arrangements, Application Guidance was added to IPSAS 47 in paragraphs AG10–AG31. As the concept of a contract may still be applicable in the public sector, the IPSASB specified in the binding arrangement definition that a contract is a type of binding arrangement. The definition of “contract” is in IPSAS 43, *Leases*, which was approved prior to IPSAS 47.

BC46. Considering constituent comments from ED respondents on the concept and definition of a binding arrangement, the IPSASB:

(a) Acknowledged that multi-party arrangements, where more than two parties in the arrangement each have their own enforceable rights and enforceable obligations, are common in the public sector. The IPSASB revised the definition of a binding arrangement to better reflect that at least two parties must each have their own respective enforceable rights and enforceable obligations, thereby conferring at least two-way enforceability; and

(b) Reconfirmed its decision that a binding arrangement includes both rights and obligations, and each party’s enforceable right and enforceable obligation are interdependent and inseparable.

BC47. The IPSASB concluded that the use and definition of the term “binding arrangement” in IPSAS 47 is conceptually consistent with existing IPSAS and the difference in wording is intentional for the purposes of IPSAS 47. The definition was retained, with minor wording revisions to clarify the concept and application in IPSAS 47.

BC48. Since a binding arrangement is, by definition, enforceable, and includes both rights and obligations for the parties, the IPSASB concluded that all binding arrangements will include at least one compliance obligation. In other words, a binding arrangement always includes at least one compliance obligation because the enforceability of binding arrangements provides each party with the ability to enforce obligations agreed upon in that binding arrangement.

Unenforceable Transactions

BC49. The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied requirement needed to be enforceable by the resource provider. For example, taxpayers do not normally have enforceable rights, and the implied requirements may give rise to enforceable obligations of the resource recipient.

BC50. The IPSASB also noted that transactions which are not binding arrangements are not automatically unenforceable. For example, certain fines and taxes are not binding arrangements because they lack two-way enforceability, but these transactions are still enforceable by the authority imposing the fines or taxes.

Appropriations

BC51. The IPSASB noted that, in some jurisdictions, a revenue transaction might be made subject to authorization of an appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. The IPSASB agreed that where the limitation has substance, the entity has no enforceable claim and should not recognize an asset prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation has substance.

Compliance Obligation

BC52. As outlined in BC26–BC28, the IPSASB decided to adopt the new term “compliance obligation” to describe all obligations arising from revenue transactions with binding arrangements. The definition of “compliance obligation” reflects that an entity’s obligation in a binding arrangement requires the entity to either use resources internally for a distinct good or service or transfer a distinct good or service to an external party (purchaser or third-party beneficiary). This definition is intended to encapsulate the concept as presented in IFRS 15 (and proposed in ED 70 as "performance obligations”), but revised to better capture public sector transactions arising from binding arrangements where an entity does not transfer distinct goods or services to an external party (proposed in ED 71 as "present obligations”).

Binding Arrangement Asset and Binding Arrangement Liability

BC53. As a consequence of replacing all references to “contract” with references to “binding arrangement”, the IPSASB also replaced the terms “contract asset” and “contract liability” with “binding arrangement asset” and “binding arrangement liability”, respectively.

Resource Provider

BC54. To more clearly describe the other party in a revenue transaction, the IPSASB introduced the term “resource provider” as part of its decision to present guidance for all public sector revenue transactions in a single standard. This party provides a resource, which encompasses various goods, services, and assets, including in the form of transfers, to the entity applying IPSAS 47. A resource provider may or may not be the party receiving goods or services from the reporting entity.

BC55. This Standard refers to the party providing resources in a revenue transaction as the “resource provider”, while IPSAS 48 refers to the party providing resources in a transfer expense transaction as the “transfer provider”. The IPSASB considered whether the same term should be used in both Standards and decided that because the scope of IPSAS 47 is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.

Purchaser and Third-Party Beneficiary

BC56. The IPSASB replaced the term "customer" with "purchaser", because the use of the term "purchaser" is widespread in IPSAS literature and is a broader term more suited to transactions involving the transfer of goods or services to either the purchaser or agreed third-party beneficiary. The IPSASB revised the definition of a "purchaser" to clarify that it is a resource provider that receives goods or services from the entity. As the term "customer" may still be applicable in certain circumstances in the public sector, the IPSASB also retained the definition of a customer but clarified that a customer is a type of purchaser.

BC57. The IPSASB added the term "third-party beneficiary" following the term "purchaser", where appropriate, to describe the transfer of goods or services in three-party arrangements, which are common in the public sector. The term "third-party beneficiary" was defined so that its meaning can be consistently applied to IPSAS 47 as well as IPSAS 48.

Revenue and Customer

BC58. The IASB's definition of revenue refers to income arising in the course of an entity's ordinary activities, and income encompasses both revenues and gains. The IASB's definition of "customer" also refers to obtaining goods or services that are an output of the entity's ordinary activities. To be consistent with IPSAS 1, the IPSASB decided not to adopt the IASB's definition of revenue. As a result, IPSAS 47 uses the definition of "revenue" in IPSAS 1 and does not refer to "income arising in the course of an entity's ordinary activities".

BC59. As the IASB's definition of "revenue", which refers to "ordinary activities", was not adopted, the IPSASB replaced the references to "ordinary activities" in the definition of "customer" with references to "activities" to ensure consistency with the Conceptual Framework. The current IPSAS literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations, primarily because of the multi-functional nature of many public sector entities.

BC60. The IPSASB decided to replace the term "commercial substance" with "economic substance" which encompasses commercial substance. The public sector entities which apply IPSAS generally do not have commercial objectives. Therefore, the term "commercial substance" was considered to be inappropriate. As a result of this change, the IPSASB added application guidance on economic substance in paragraphs AG32–AG34.

Combining Binding Arrangements

BC61. When considering the criteria for when an entity shall combine two or more binding arrangements, the IPSASB considered replacing the term "commercial objective", with "economic objective", because the term "commercial objective" refers to the objective to make a profit, whereas the primary objective of most public sector entities is to deliver services to the public. However, the IPSASB decided to simply replace the term "commercial objective" with "objective" because the term "economic objective" could have a different connotation for the public sector than the objective of delivering services to the public.

Economic Benefits and Service Potential from Distinct Goods or Services

BC62. According to the Conceptual Framework, a resource provides benefits in the form of service potential or the capability to generate economic benefits. The IPSASB acknowledged 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. Therefore, the IPSASB replaced the term "benefits" with "economic benefits or service potential" in IPSAS 47.

Retained Terminology and Definitions

BC63. The IPSASB considered whether any modification was required to the following terms and definitions but ultimately decided to retain them without modification, as there was no public sector-specific reason to modify them:

(a) Goods or services;

(b) Consideration;

(c) Exchange;

(d) Distinct; and

(e) Fair value.

Identifying the Revenue Transaction (paragraphs 9–16)

BC64. In response to constituent comments in response to the EDs, outlined in paragraphs BC14–BC17, the IPSASB restructured the guidance in IPSAS 47 to require an entity to consider up front whether the transaction is without or with a binding arrangement. The enforceability of a binding arrangement necessitates different accounting principles in order to capture the nature and risks of such transactions (in comparison with transactions without binding arrangements). The IPSASB also added Implementation Guidance to support the accounting principles presented in the authoritative text, as this is an important and complex area of the revenue guidance.

Revenue from Transactions without Binding Arrangements (paragraphs 17–55)

BC65. The definition of a binding arrangement specifically requires each party in the arrangement to have both an enforceable right and enforceable obligation. If one of these components is not present in the arrangement, then it is not a binding arrangement. This means that various transactions are to be accounted for as revenue from transactions without binding arrangements, where the entity has:

(a) An enforceable right, and an unenforceable obligation;

(b) An unenforceable right, and an enforceable obligation; or

(c) An unenforceable right and an unenforceable obligation.

BC66. The IPSASB has included more explicit guidance to prompt an entity to consider whether any of its rights or obligations in the transaction may meet the definition of an asset or liability, respectively, in accordance with the Conceptual Framework. This additional guidance is consistent with existing accounting principles, and is included to better balance the accounting model for revenue without binding arrangements and overall ensures that the two accounting models are comprehensive and stand-alone for users of this Standard.

BC67. This Standard also does not establish different recognition 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 a different recognition point.

Entity Bank Accounts

BC68. 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 entity has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Assets and Liabilities

BC69. This Standard requires assets acquired in revenue transactions to be initially measured at their transaction consideration as at the acquisition date. The IPSASB was of the view that this is appropriate to reflect the substance of the transaction and its consequences for the entity. The cost of acquisition is usually a measure of the fair value of the asset acquired. However, the consideration provided for the acquisition of an asset may not be equal to the fair value of the asset acquired. Transaction consideration most faithfully represents the actual value the entity accrues as a result of the transaction. Initial measurement of non-monetary assets acquired at their transaction consideration, which is the current value for non-monetary assets, is consistent with the approach taken in IPSAS 16, *Investment Property* for assets acquired at no cost or for a nominal cost. The IPSASB made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 to fully align those IPSAS with the requirements of this Standard.

BC70. As part of the development of IPSAS 46, *Measurement*, the IPSASB decided that, in the case of non-monetary assets in the scope of IPSAS 45, *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 its operational capacity.

BC71. 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 was also cognizant of the amendments proposed for IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (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

BC72. 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 of Taxes

BC73. This Standard requires an entity that receives resources in advance of the taxable event, or of an 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 does not occur, or the arrangement does not become enforceable, the entity may need to return part or all of the resources. One common view is 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 transfer of resources. The IPSASB supported 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 an arrangement becoming binding, the entity recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

BC74. 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 generally 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 concluded that this treatment was consistent with the principles established in this Standard.

BC75. 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.[10] The IPSASB noted 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 Tax Gap

BC76. For some taxes, government entities will be aware that the amount it 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, non-compliance 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.

BC77. The IPSASB concluded 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 to the tax gap.

Revenue from Transactions with Binding Arrangements (paragraphs 56–161)

Accounting for the Binding Arrangement

BC78. The IPSASB noted that the title and structure of Step 1 of the five-step model proposed in ED 70, previously titled "Identifying the Binding Arrangement", caused confusion for some constituents. The criteria in paragraph 56 are not intended to identify whether an arrangement is a binding arrangement; an entity should identify a binding arrangement by assessing whether an arrangement meets the definition of a binding arrangement. Rather, an entity is to consider the criteria in paragraph 56 when determining if revenue from a binding arrangement should be accounted for using the five-step accounting model in IPSAS 47. The IPSASB decided to reorder the authoritative guidance on binding arrangements and clarify when the five-step model should be considered in accounting for revenue transactions arising from binding arrangements.

Probability of Collection of Consideration to which an Entity is Entitled (Paragraph 56(e))

BC79. Paragraph 56(e) is part of the criteria that must be met before an entity can apply the five-step accounting model in IPSAS 47. Paragraph 56(e) requires the collection of consideration to which an entity is entitled to be probable.

[10] OECD, Revenue Statistics (Paris: OECD, 2000): p. 267, §20-21.

BC80. One of the underlying assumptions in IFRS 15 is that collectability of consideration from customers is likely in the private sector because:

(a) Entities generally only enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and

(b) Unless there are significant penalties for exiting a contract, most entities would not continue to be in a contract with a customer in which there was significant credit risk associated with that customer without adequate economic protection to ensure that it would collect the consideration.

BC81. The IPSASB acknowledged that the probability criterion for certain binding arrangements with resource providers is an issue for the public sector in some jurisdictions. Some public sector entities are required to enter into binding arrangements to provide certain goods or services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of the resource provider's ability or intention to pay. As a result, public sector entities may enter into some binding arrangements where collectability of the consideration is not probable.

BC82. When the collection of consideration is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph 56(e) without modification could result in revenue not being recognized until the consideration has been collected and the conditions in paragraph 58 of IPSAS 47 are met.

BC83. The IPSASB decided to retain paragraph 56(e) because:

(a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 4 of IPSAS 47, paragraph 7 of IPSAS 1, and paragraph 5.29 of the Conceptual Framework; and

(b) The probability criterion aligns with IFRS 15 requirements and prevents entities from recognizing revenue and large impairment losses at the same time.

BC84. The IPSASB acknowledged that arrangements into which an entity is compelled to enter, where the collectability of the consideration is in question, could be prevalent and material in certain jurisdictions. The IPSASB noted that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable or only considered probable after accepting a price concession as described in paragraph AG37 (see paragraph BC110).

BC85. To assist with the application of paragraph 56(e), the IPSASB added paragraph AG37, which states that when an entity is providing goods or services and accepts a lower amount of consideration, the acceptance of the lower amount of consideration is generally considered an implicit price concession. This guidance is based on the concepts illustrated in Illustrative Examples 2 and 3 of IFRS 15, and the IPSASB decided that it would be appropriate to elevate the concept from these examples due to the potential prevalence of transactions with collections risk in the public sector. Once an entity has concluded that it has provided a price concession, the binding arrangement with the lowered transaction consideration may meet the collectability criterion in paragraph 56(e) and the entity would apply the five-step accounting model to the binding arrangement. The IPSASB also enhanced paragraph AG37 to address comments from ED respondents on how an entity should consider implicit price concessions in the assessment of collectability, and use its best estimate of risks associated with the resource provider at the inception of the binding arrangement.

Recognition of Consideration Received as Revenue when the Criteria in Paragraph 56 are not Met (Amendment of Paragraph 58)

BC86. In IFRS 15, if a transaction does not meet all of the criteria for revenue recognition using the five-step accounting model and the entity receives consideration from a customer, the consideration is recognized as revenue when either:

(a) The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or

(b) The contract has been terminated and the consideration received from the customer is non-refundable.

BC87. In the public sector, because an entity may be compelled to continue to provide goods or services to parties who cannot pay for these goods or services, the IPSASB was concerned that the application of paragraph 15 of IFRS 15 may lead to situations where revenue is never recognized, even if an entity has collected a portion of the promised consideration and the amounts collected are non-refundable. To address this concern, the IPSASB clarified in paragraph 58(a) of IPSAS 47 that an entity shall recognize the consideration received as revenue when the entity has fully satisfied the compliance obligation related to the consideration received, and the consideration received is non-refundable.

Overall Impact from the Application of Paragraphs 56(e), 58 and AG37

BC88. The IPSASB noted that the application of paragraphs 56(e), 58 and AG37 would lead to the following possible outcomes, and considered the accounting and disclosure implications of the outcomes when the requirements of this Standard are applied:

(a) Criterion 56(e) is met and there are no collectability issues – In this scenario, the binding arrangement will be accounted for using the five-step accounting model and no specific disclosures regarding compelled transactions are required. As required by paragraph 57, if facts and circumstances have changed significantly since the initial assessment, the entity is required to reassess if the binding arrangement continues to meet all the criteria in paragraph 56.

(b) Criterion 56(e) is met, but only after the transaction consideration has been reduced for the implicit price concession as noted in paragraph AG37 – In this scenario, the binding arrangement will be accounted for using the five-step accounting model but at the reduced transaction consideration. Specific disclosures regarding compelled transactions will be required by paragraph 171 (see paragraph BC110 below). Similar to the scenario in paragraph BC88(a), if facts and circumstances have changed significantly since the initial assessment, the entity is required by paragraph 57 to reassess if the binding arrangement continues to meet all the criteria in paragraph 56.

(c) Criterion 56(e) is not met, and the entity has collected a portion of the consideration – This scenario can arise when there is not enough information to formulate an expectation of the amounts to be collected or when there is no discernable pattern of collection based on past history. In this scenario, paragraph 58 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 56. Any consideration received is subject to the revenue recognition criteria in paragraphs 58 and 86. Specific disclosures regarding compelled transactions will be required by paragraph 171.

(d) Criterion 56(e) is not met, and no consideration has been collected – In this scenario, paragraph 58 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 56. Specific disclosures regarding compelled transactions will be required by paragraph 171.

Based on the above, the IPSASB was satisfied that paragraphs 58, 171 and AG37 address the concerns discussed in paragraphs BC84, BC87 and BC110.

Breach of the Terms and Conditions of a Binding Arrangement

BC89. The IPSASB considered the accounting consequences arising from the breach of the terms and conditions of a binding arrangement. The IPSASB concluded that the guidance in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors,* should be considered to determine whether the breach resulted in an error as defined in IPSAS 3. Where the circumstances of the breach are such that the guidance in IPSAS 3 is not applicable, guidance included in this Standard should be applied.

Identifying Compliance Obligations in a Binding Arrangement

BC90. Further to its discussions outlined in paragraphs BC20–BC29, the IPSASB confirmed that a binding arrangement has at least one compliance obligation, and each compliance obligation is a unit of account to determine a distinct component within the binding arrangement and is a mechanism for the recognition and measurement of revenue. Since an entity's binding arrangement may have multiple compliance obligations, the IPSASB decided to revise existing guidance to help entities identify and account for each of its obligations in a binding arrangement separately, in accordance with the nature of each distinct obligation, and added Implementation Guidance to support the principles presented in the authoritative text. The IPSASB also confirmed that principles in this Standard are consistent with the Unit of Account guidance proposed in Chapter 5*, Elements in Financial Statements* of the *Conceptual Framework*.

Existence and Recognition of a Liability

BC91. Some respondents to ED 71 provided comments related to the existence of a liability in a binding arrangement: for example, what gives rise to a liability in a binding arrangement, whether and when a liability is recognized, and if that liability only arises when there is a return (i.e., repayment) obligation, as previously presented in IPSAS 23. The IPSASB considered these comments in conjunction with the guidance proposed in Chapter 5*, Elements in Financial Statements* of the *Conceptual Framework*.

BC92. Through its discussions, the IPSASB confirmed that the enforceability of a binding arrangement is a key element which may give rise to a liability (specifically, deferred revenue) for the entity, to the extent that the terms of the arrangement are not yet satisfied. An entity recognizes a liability (deferred revenue) in its transaction with a binding arrangement when it has received resources prior to satisfying its compliance obligation(s), and the resource provider can enforce the terms of the binding arrangement, specifically, to enforce its right and require the entity to transfer resources to another party if it does not satisfy its compliance obligation(s). If the criterion in paragraph 82(b) is not met, it may indicate that the arrangement is not a binding arrangement and the entity should reconsider its analysis.

BC93. The IPSASB also confirmed that, after initial recognition, the liability (deferred revenue) is reduced over time as (or fully extinguished at a point in time when) the entity satisfies the compliance obligation(s) associated with resources previously received and earns revenue.

Recognition of Revenue Transactions with Binding Arrangements

BC94. The IPSASB confirmed that for revenue transactions with binding arrangements, there is no initial recognition when no party has started to satisfy its obligations under the binding arrangement, unless the binding arrangement is onerous, as the combined right and obligation constitute a single asset or liability in the statement of financial position. The accounting begins when the binding arrangement is at least partially satisfied (i.e., at least one party begins to satisfy one or more of its obligations).

BC95. In ED 71, the IPSASB proposed that the present obligations in enforceable transactions would either be a specified activity, or a requirement to incur eligible expenditure. Neither a specified activity nor eligible expenditure requires the entity to transfer a good or service to either the transfer provider or a third-party beneficiary. The entity would recognize an asset and a liability when it had control of, or right to, the resource transferred and the revenue would be recognized (and the liability decreased) when (or as) the present obligation was satisfied.

BC96. Some respondents to ED 71 did not agree that specified activities and eligible expenditures were present obligations and gave rise to liabilities as defined in the Conceptual Framework. Upon reflection, the IPSASB acknowledged that the intention was not that the specified activities or eligible expenditures in and of themselves give rise to a present [compliance] obligation, but that they are an entity's actions or spending to satisfy a specific promise it agreed to by willingly entering into a binding arrangement. Specified activities and eligible expenditures are examples of ways in which an entity may satisfy its obligations in a binding arrangement in accordance with the requirements in that binding arrangement, thereby informing the recognition of earned revenue. An entity should apply the guidance in paragraphs 98–104 of the accounting model for binding arrangements to determine which method is appropriate for measuring its progress towards complete satisfaction of its compliance obligation. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

Determining the Transaction Consideration

BC97. In responding to constituent's concerns relating to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

BC98. Constituents noted that there are a number of revenue transactions within the scope of IPSAS 47 that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death (the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased's estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.

BC99. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probable that a significant reversal in the amount of revenue recognized will not occur satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain, which addressed concerns raised by constituents.

Allocating the Transaction Consideration to Compliance Obligations

BC100. IFRS 15 states that an entity should allocate the transaction price (consideration) to all performance obligations in proportion to the stand-alone selling prices of the goods or services. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price using either the:

(a) **Adjusted market assessment approach** – an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services;

(b) **Expected cost plus a margin approach** – an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service; or

(c) **Residual approach** – an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.

BC101. The IPSASB retained the methods of determining a stand-alone value in IPSAS 47, as they were appropriate for the transactions that would be covered in the Standard and added Implementation Guidance to provide additional guidance on application in the public sector. However, the IPSASB replaced the term "expected cost plus a margin approach", with the term "expected cost approach", because certain goods or services are purchased or produced by public sector entities for no charge or for a nominal charge ("cost recovery" or "non-commercial basis"). The IPSASB noted that the expected cost approach is likely more relevant in the public sector for non-exchange-type transactions, whereas the adjusted market assessment approach is likely more relevant for exchange-type transactions.

BC102. These methods are used to estimate the stand-alone value in order to allocate the transaction consideration to each compliance obligation.

Considering Changes in an Entity's Revenue Arrangement

BC103. Although an entity has the ability to enforce its binding arrangement, a change in internal or external factors, such as the entity's choice to partially or fully exercise its ability to enforce, may have accounting implications. These factors may vary based on the relationship with the other party or parties in the binding arrangement, jurisdictional considerations, specific circumstances subsequent to initially entering into the binding arrangement, or other considerations.

BC104. The IPSASB highlighted the importance of appropriately assessing the implications of changes in internal and external factors from a public financial management perspective. Appropriately reporting and disclosing information related to these arrangements enables public sector entities to be transparent to its constituents. Changes that do not impact the economic substance of the arrangement (i.e., whether the entity has a binding arrangement) would inform the subsequent remeasurement of any receivables or binding arrangement assets. This assessment requires professional judgment and consideration of all elements of the transaction in order to determine whether and how factors impact subsequent measurement. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

Subsequent Measurement of Non-Contractual Receivables

BC105. Receivables arising from contractual agreements would be within the scope of the financial instrument standards. However, it is possible for receivables to arise from other revenue arrangements (specifically, revenue from binding arrangements that are not contracts, or arrangements that are not binding arrangements), which would fall outside the scope of IPSAS 41, *Financial Instruments*. To address the lack of guidance for subsequent measurement of these receivables, the IPSASB proposed guidance in ED 70 and ED 71 that an entity should initially measure such receivables at the transaction consideration, as required by paragraphs 57–60 and AG115–AG117 of IPSAS 41.

BC106. While the majority of respondents to ED 70 and ED 71 agreed with the proposed measurement of receivables, some respondents noted that the application of IPSAS 41 to subsequently measure non-contractual receivables was unclear and potentially difficult in practice. The IPSASB acknowledged that while a non-contractual receivable would not strictly meet the definition of a financial asset, the substance and risks are consistent with those of contractual receivables, and these receivables should be accounted for with a consistent set of principles. The IPSASB reaffirmed that consistency in accounting for transactions with the same substance is necessary from a stronger public financial management perspective, and noted that constituents did not challenge the IPSASB's conclusion that there are no public sector-specific reasons which warrant a different accounting treatment for subsequent measurement of non-contractual receivables compared to contractual receivables. The IPSASB also reaffirmed that, as previously expressed by CP respondents, these receivables are generally expected to be classified and measured at amortized cost, as the entity's management model is likely to hold financial assets to collect cash flows (consideration owed in the revenue arrangement) and not to sell financial assets, and the cash flows are solely payments of the principal and any interest outstanding.

BC107. A few constituents also requested a simplified approach or practical expedient for non-contractual receivables, to address potential difficulties in applying IPSAS 41 in practice. The IPSASB acknowledged that the availability of certain information may pose some difficulties in applying amortized cost which may not be sufficiently eased by the use of the simplified approach for receivables in paragraphs 87-89 of IPSAS 41. However, non-contractual receivables, by nature of the revenue arrangements from which they arise, are typically held to collect expected cash flows related to the revenue transaction (rather than to sell and trade), and have shorter maturity periods (i.e., when consideration becomes due from the resource provider), similar to short-term receivables, and the required estimates would not span a long uncertain time period. Consideration of the time value of money and expected credit losses are necessary to appropriately reflect the economic substance of both contractual and non-contractual receivables. The IPSASB concluded that another simplified approach or practical expedient would not be appropriate, as an inconsistent application of accounting principles for transactions of the same substance and risks would not reflect the economic substance of these transactions.

BC108. Based on its analysis, the IPSASB added Implementation Guidance to support the principles presented in the authoritative text, and address constituent comments and clarify how IPSAS 41 principles can be applied by analogy to subsequently measure non-contractual receivables.

Presentation (paragraphs 162–193)

Approach to Disclosure Requirements

BC109. The IPSASB noted that the objective of the disclosure requirements is to provide information which enables users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows. As all of the concepts from IFRS 15 on recognition and measurement of revenue were retained in ED 70, the IPSASB decided that there was no public sector-specific reason to remove any of the disclosure requirements from IFRS 15, and were also incorporated into ED 71 for consistent disclosure of revenues from binding arrangements with present obligations. The IPSASB acknowledged that the retention of all disclosure requirements from IFRS 15 will result in significantly more requirements than required in the existing IPSAS 23.

BC110. In response to the concerns noted in paragraph BC84 regarding the potential loss of information on transactions where an entity is compelled to enter into a transaction by legislation or other governmental policy decisions, and where the collection of consideration is not probable or only assessed as probable after accepting a price concession as noted in paragraph AG37, the IPSASB decided to require disclosure of the information (in IPSAS 47 as paragraph 171). The IPSASB noted that these additional disclosures will provide users of the financial statements with details on why an entity was compelled to enter into such transactions, as well as the level of goods or services that were provided by the entity in such transactions for which revenue was not recognized.

BC111. As part of the exposure drafts, the IPSASB requested constituent responses on whether they agreed with the inclusion of disclosure requirements aligned with IFRS 15, and a public sector-specific disclosure requirement for transactions which an entity is compelled to enter into by legislation or other governmental policy decisions.

BC112. The majority of respondents to ED 70 and ED 71 generally agreed with the proposed disclosures and the assertion that there was no public sector-specific reason to deviate from IFRS 15 alignment for transactions with the same substance. At the same time, the IPSASB acknowledged feedback from respondents about the volume of disclosures in the two EDs, and decided to take a principle-based approach in reassessing disclosure requirements, focusing on the nature of the transactions and their risks. With this approach in mind, the IPSASB noted that its decisions since the issuance of ED 70 and ED 71, in particular to present revenue guidance in a single standard with a revised order, partially address constituent comments as the overall volume of disclosures has been reduced and has resulted in a more succinct and clear set of disclosures.

BC113. The IPSASB noted that the key purpose of disclosures, as presented in the IPSASB's Conceptual Framework, is to provide financial information that supports accountability and is useful for decision-making purposes. In the context of revenue, an entity's disclosures should provide information that is useful in understanding the nature, amount, timing, and uncertainty of the entity's revenue for material revenue transactions, and disclosure requirements should prompt entities to disclose (or consider disclosing) such information about its revenue transactions. This means that, similar to other IPSAS, not all disclosure requirements in IPSAS 47 may be applicable for an entity in its preparation of financial statement note disclosures. In practice, it is likely that fewer than the full range of possible disclosures may be made by an entity.

BC114. Furthermore, under a principle-based approach, disclosures should align with the accounting principles set by the IPSASB within the respective accounting models.

(a) Transactions arising without binding arrangements are expected to comprise a majority of public sector revenues. IPSAS 23 disclosures (all brought into ED 71) remain relevant, useful, and appropriate for public sector revenues arising without binding arrangements; and

(b) Transactions arising with binding arrangements are accounted for under the same model because the enforceability of binding arrangements drives the accounting principles to capture the substance and risks of revenue with binding arrangements. To maintain a principle-based approach, all transactions accounted for under the binding arrangement model should be subject to the same set of disclosure requirements. The proposed disclosures, based on IFRS 15 and adapted for the public sector, are consistent with the concepts and principles in the binding arrangement accounting model that may be applied to public sector revenue transactions with binding arrangements. Thus, they remain relevant, useful, and appropriate for public sector revenue arising with binding arrangements.

BC115. Based on its analysis, the IPSASB decided to retain the disclosures previously proposed in ED 70 and ED 71, as they meet the disclosure objective and remain appropriate and consistent with the principles for the respective accounting models. An entity may apply all disclosure requirements if they are relevant for any specific transaction, but need not apply any requirements that are not relevant. This is consistent with the application of the accounting models themselves, where an entity may apply the principles and guidance in each accounting model for any revenue transaction, but need not apply those that are not relevant for a specific transaction. A public sector entity will need to consider and determine which disclosure requirements apply to their revenue transactions.

BC116. The IPSASB acknowledged that a few respondents requested specific additional disclosures and highlighted that IPSAS disclosure requirements do not prohibit entities from disclosing any information not formally required in any IPSAS. An entity can choose to provide additional disclosures at its own discretion, for example, if it deems the information would meet the overall objective of disclosure requirements and would provide relevant, useful, and appropriate information for decision-making purposes.

BC117. The IPSASB noted that some entities which provide goods, services, or other assets to third-party beneficiaries would like to disclose information in their financial statements regarding their programs. As a result, the IPSASB decided to revise paragraph AG207, which provides suggestions for the categories used to disaggregate revenue disclosures, to include a category for revenue earned from the provision of goods or services to third-party beneficiaries.

Application Guidance (paragraphs AG1–AG207)

Scope Exclusions

BC118. This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph AG7). 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.

Enforceability

Assessment of Enforceability

BC119. Some respondents to ED 70 and ED 71 noted that the accounting guidance mentioned several mechanisms or factors of enforceability, but were unclear on whether certain factors are considered more demonstrative than others. The IPSASB considered these comments and debated whether the presence or absence of specific factors, such as past history of enforceability, demonstrates the enforceability of a binding arrangement. The IPSASB concluded that the impact of specific factors on the assessment of enforceability will be specific to each jurisdiction and the respective binding arrangement. In other words, the principle related to enforceability of a binding arrangement remains appropriate but application of this principle in practice may vary depending on the relevant mechanisms for the entity.

BC120. The IPSASB also confirmed that the assessment of enforceability is based on the ability to enforce. This assessment is to be completed when the entity first enters into the arrangement and when a significant change in external or internal factors indicates that there may be a change in the enforceability of that binding arrangement (i.e., a change in the substance of the arrangement).

BC121. Based on these discussions, the IPSASB decided to revise guidance to emphasize that an entity should assess all relevant factors at the transaction date to determine whether the parties in the arrangement have the ability to enforce the rights and obligations in the arrangement. Judgment is required to determine which factors of enforceability are more demonstrative in the respective jurisdiction and binding arrangement. The IPSASB decided to provide additional authoritative guidance on the concept of enforceability in a binding arrangement.

Enforceability through Equivalent Means

BC122. The IPSASB noted that some binding arrangements in the public sector are enforceable not by legal means but by equivalent means (i.e., “like legal”) through other enforcement mechanisms. Equivalent means of enforceability are legally binding, as described in the Conceptual Framework, and are intended to capture ways in which entities that cannot enter into legal arrangements can still enforce similar to the force of law. The CP proposed the following as possible enforcement mechanisms by equivalent means:

(a) Legislation;

(b) Cabinet and ministerial decisions; and

(c) Reduction of future funding.

BC123. The IPSASB agreed that cabinet and ministerial decisions, including executive authority, may be subsets of legislation and may in some circumstances be valid enforcement mechanisms. Paragraphs AG18–AG23 of this Standard discusses the equivalent enforcement mechanisms.

BC124. Constituents were generally supportive but questioned the validity of a reduction of future funding as an enforcement mechanism. The IPSASB decided that a reduction of future funding could only be used to enforce a binding arrangement if the resource provider had a compliance obligation to provide future funding in another binding arrangement. Without this binding arrangement and its compliance obligation, the threat of a reduction of future funding is not a valid enforcement mechanism, as there is no future funding that could be reduced.

BC125. The IPSASB also discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.

BC126. In addition, the IPSASB discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The IPSASB noted that paragraph 5.17D of the Conceptual Framework states that "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 a transfer of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation".

BC127. However, the IPSASB was of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of IPSAS 47 because a non-legally binding obligation as cited in the Conceptual Framework is binding only for the party to whom the obligation exists, whereas a binding arrangement as used in IPSAS 47 requires both parties to agree to both the enforceable rights and obligations within that agreement.

BC128. The IPSASB also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g., a general policy statement or announcement following a natural disaster) would create a binding arrangement for a potential resource recipient. The IPSASB decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement with other parties, and therefore there is no binding arrangement. Such an announcement may be accounted for by the government under IPSAS 19.

Determination of Stand-Alone Value

BC129. The determination of the stand-alone selling price in IFRS 15 is largely based on the price at which an entity would sell a promised good or service separately to a customer. The IPSASB noted that in the public sector, the determination of stand-alone value may be challenging in situations where an entity is providing goods or services to third-party beneficiaries for no consideration, and some may interpret the requirements for the determination of stand-alone value to only consider amounts received directly from the party receiving the goods or services. To address the issue, the IPSASB added guidance in paragraph AG110, which states that a stand-alone value in such situations shall be estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided. Where market information is not available, the stand-alone value is based on an estimate using the expected cost approach.

Capital Transfers

BC130. The CP noted that there was little guidance in IPSAS 23 on accounting for capital grants (now referred to as capital transfers). The CP gave a preliminary view from the IPSASB that accounting for capital transfers should be explicitly addressed within IPSAS, which respondents to the CP supported. This Standard includes guidance on accounting for capital transfers. The IPSASB noted that the accounting for capital transfers, which by definition arise from binding arrangements, would be the same as for any other revenue transaction from a binding arrangement: revenue from capital transfers would be recognized as the compliance obligations are satisfied.

BC131. When developing the approach above, the IPSASB decided not to adopt the IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* accounting requirements for capital transfers. This approach provides accounting for "grants related to assets" which is defined as: "Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held".

BC132. IAS 20 requires government grants to be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Under IAS 20, grants relating to assets may be presented as either deferred income or as a reduction of the carrying amount of the related asset. The grant is only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated.

BC133. The IPSASB agreed that this approach did not provide useful or representationally faithful information for users. An entity earns revenue in a capital transfer by acquiring or constructing a non-financial asset as specified in the binding arrangement from which it arises. In other words, the nature of the revenue in the capital transfer is directly associated with the acquisition or construction, rather than the subsequent use and depreciation, of the non-financial asset. The IPSASB therefore decided to develop an accounting approach for capital transfers which recognized revenue as the non-financial asset (capital asset) is either acquired or constructed as specified in the binding arrangement.

BC134. As the IPSASB revised revenue guidance in response to constituent comments on ED 70 and ED 71, the IPSASB assessed whether the accounting principles in the binding arrangement model remain appropriate for capital transfers. The IPSASB concluded that the accounting principles remain appropriate, and that revenue should be recognized as the compliance obligation to acquire or construct the non-financial asset is satisfied. The entity applying the guidance will also need to consider whether any requirement to operate the non-financial asset is an individual compliance obligation to be accounted for separately. The IPSASB revised and enhanced the Illustrative Examples to help illustrate the application of the accounting principles.

BC135. The IPSASB considered that some capital transfers may include multiple compliance obligations, one being the acquisition or construction of a capital asset and another being the operation of the capital asset in a particular way for a specified period of time. In these circumstances, the IPSASB decided that the accounting for each compliance obligation should be considered separately in accordance with the nature of each obligation.

Services In-Kind

BC136. 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 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.

BC137. However, the IPSASB encourages entities to disclose qualitative information about services in-kind received, particularly if those services were integral to the operations of the entity.

Disclosures: Materiality and Aggregation

BC138. The IPSASB also discussed the need for entities to apply the concept of materiality when providing the disclosures required by IPSAS 47. Based on feedback from constituents on previously issued IPSAS and in response to ED 70 and ED 71, the IPSASB noted that it would be helpful to include an explicit reference to the materiality and aggregation guidance from paragraphs 45–47 of IPSAS 1. This reference was added to paragraph AG204 of IPSAS 47.

Consideration of Re-Exposure

BC139. The IPSASB considered whether there had been a substantial change to the EDs such that re-exposure may be necessary:

(a) The IPSASB discussed the differences between IPSAS 47, and ED 70 and ED 71 issued in 2020. In particular, the IPSASB noted that key differences include the revised structure of guidance, based on whether there is a binding arrangement, and the use of the term "compliance obligation" for the unit of account for revenue accounting, as summarized in BC14–BC30. The IPSASB agreed the changes made since the exposure draft process addressed issues raised by constituents, and resulted in a clearer Standard that retains the principles set out in the EDs. Thus, the IPSASB was of the view that there were no substantial changes to the substance of the guidance or the principles in the original EDs.

(b) The IPSASB noted that issuance of IPSAS 47 would address issues identified by constituents with the existing suite of revenue IPSAS. The IPSASB also agreed that, from a public interest perspective, the expected costs of re-exposure, including delayed implementation of the Standard that constituents are actively seeking, outweigh the potential benefits of re-exposure.

BC140. Based on its assessment, the IPSASB decided to approve IPSAS 47 without re-exposure, as there were no substantial changes, and to finalize and issue the Standard, as that was in the public interest.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 47.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a "capital transfer"?

It depends. Public sector entities receive resources through various types of transfer transactions, in the form of cash or another asset, and which may arise with or without a binding arrangement. An entity should consider whether there are any specifications related to the transfer of the physical asset to determine whether it meets the definition of a "capital transfer" in paragraph 4 of this Standard.

A transfer of a physical asset is a "capital transfer" if the entity received this transfer within a binding arrangement and is required by the binding arrangement to use that physical asset to acquire or construct another non-financial asset that will be controlled by the entity. A transfer of a physical asset which only has a requirement to be used or operated in a specific manner would not meet the definition of a "capital transfer"; rather, such a transfer of a physical asset would constitute a "transfer" as defined in paragraph 4. An entity should clearly consider the specific terms within the binding arrangement.

Section B: Identifying the Revenue Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public sector entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the parties in the arrangement, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of revenue to ensure fair presentation of such transactions.

It is important to correctly identify whether the revenue transaction arises from a binding arrangement. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its revenue transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 11–16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation, which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Implicit or explicit consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgment and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Revenue Subject to Appropriations

How should an entity consider the impact of appropriations on its revenue transactions?

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or similar authority. Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion of the resource provider (which would be similar in substance to a unilateral termination clause without penalty).

Appropriations on their own do not prove nor refute the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of its specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred are subject to the completion of an appropriation process as an explicit term or condition (either in writing, orally, or implied through customary practices). In such circumstances, the entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the entity to require the resource provider to transfer resources, or, if the resource provider fails to do so, to impose consequences on the resource provider, prior to the completion of the appropriation process. The limitation (that the resources to be transferred are subject to the completion of the appropriation process) does not have substance when the entity can establish an enforceable right to those resources, before the appropriation process is completed. In such cases, the arrangement is enforceable and may be a binding arrangement.

In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:

(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a resource provider;

(b) The exercise of that authority has occurred. In essence, a decision has been made by the resource provider under the approved enabling authority that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority together with the exercise of that authority may be sufficient for an entity to conclude that it has an enforceable right to resources in the arrangement to require the resource provider to transfer the resources or, if the resource provider fails to do so, to impose consequences on the resource provider prior to the completion of the appropriation process. In such a circumstance, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when a resource provider has lost its discretion to avoid proceeding with the transfer of resources. In such a circumstance, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 4. If it meets the definition, the entity accounts for revenue arising from the binding arrangement in accordance with paragraphs 56–147.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with IPSAS 41, *Financial Instruments*. For example, an entity that completely satisfied its compliance obligation and has an unconditional right to consideration would partially impair and derecognize its receivable asset if it intends to only enforce a portion of its right (and does not expect to reverse this decision), but would fully impair and derecognize the asset if it fully loses the ability to enforce its right due to legislative changes. The respective impairment loss would be recognized in accordance with IPSAS 41.

Section C: Revenue from Transactions without Binding Arrangements

C.1 Recognition of Revenue from Various Types of Taxes

What is the taxable event that triggers the recognition of revenue from various types of taxes levied in a jurisdiction?

An entity recognizes revenue from a transaction without binding arrangements when it receives or has the right to receive an inflow of resources that meets the definition of an asset (paragraphs 18–25), and there are no unsatisfied enforceable obligations associated with those resources (paragraph 29).

Resources arising from taxes that are presently controlled by the entity as a result of past events meet the definition of an asset. An entity should assess the taxation law in its own jurisdiction to determine the past event for these transactions (i.e., the taxable event), and consider all relevant facts and circumstances to determine when tax revenue should be recognized. The following table provides a non-exhaustive list of examples of tax revenues, and the likely taxable event (unless otherwise specified in laws and/or regulations):

Revenue Type	Likely Taxable Event
Tax on personal income earned within a jurisdiction.	The earning of assessable income by taxpayers in the current reporting period.
Tax imposed on businesses for the value added from sales of goods or services.	The sale of value-added goods or services (i.e., undertaking of taxable activity) during the reporting period.
Tax imposed on sales of goods or services.	The sale of taxable goods or services during the reporting period.
Duty on imports of specific goods to ensure that domestically produced goods are cheaper in the retail market.	The movement of goods subject to duties across the customs boundary during the reporting period.
Duty on taxable property.	The death of the person owning taxable property.
Tax on assessed property within a jurisdiction.	The passing of the date on which the taxes are levied, or the period for which the tax is levied (if the tax is levied on a periodic basis).

C.2 Measurement of Revenue from Various Types of Taxes

How does an entity measure the amount of revenue it has earned from its tax transactions without binding arrangements?

In many circumstances, the taxation period will not coincide with the entity's reporting period. An entity may also receive estimated tax payments in installments on a periodic basis before the taxable amount is finalized, which may require additional taxes owed, or a refund to the taxpayer for any excess. An entity shall recognize the inflow of resources (or the right to an inflow of resources) as an asset, and recognize revenue earned in the current reporting period, to the extent that it can be reliably measured. The best estimate is consistent with the most likely amount (see paragraphs 45–50).

To reliably measure the asset and revenue, the entity should consider all relevant data from various sources to arrive at its best estimate. Paragraph 46 describes factors that an entity should take into account in its estimation models. Sources of relevant data and inputs for an entity's estimation model include, but are not limited to: historical data (e.g., collection history and other taxation statistics), observable and other phenomena (e.g., forecasts, economic and banking statistics, installments), and the use of experts.

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, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Section D: Revenue from Transactions with Binding Arrangements

D.1 Identifying Compliance Obligations in a Binding Arrangement

Binding arrangements in the public sector vary substantially. Some binding arrangements may require the entity, as the resource recipient, to achieve a specific holistic service objective, while other binding

arrangements may impose requirements related to specific goods and services. How does an entity determine the individual compliance obligations in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

A binding arrangement has at least one compliance obligation. A compliance obligation, as defined in paragraph 4, is a unit of account to determine distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of revenue. An entity must use professional judgment as it applies paragraphs 68–77 to determine the individual compliance obligations in its binding arrangement.

An entity should first identify all of the promises in its binding arrangement to use resources in a specified manner. Promises are goods or services promised in a binding arrangement with a resource provider, and may be explicit or implicit in the binding arrangement. A promise may require the entity to use resources internally for a good or service, or to transfer a good or service to an external party or parties (i.e., the purchaser or third-party beneficiary). A thorough assessment is necessary to identify all promises of goods or services in the binding arrangement (paragraphs 71–72).

An entity then considers each identified promise to determine if a promise is itself a compliance obligation, or whether it should be grouped with other promises to be a compliance obligation. In other words, a compliance obligation is a unit of account that represents a distinct promise or distinct group of promises to which recognition criteria and measurement concepts are applied (paragraph 73). A good or service (or a bundle of goods or services) promised in a binding arrangement is distinct if both criteria are met:

(a) The promised good or service (or a bundle of goods or services) is *capable of being distinct*; and

(b) The promise is *distinct within the context of the binding arrangement*.

Whether a good or service is *capable of being distinct* is generally based on the characteristics of the good or service (see paragraph 75 for additional guidance). However, determining whether the promise is *distinct within the context of the binding arrangement* will require judgment to ensure that the grouping of promises, and thus identification of individual compliance obligations, will meaningfully represent the nature of the entity's transaction with the resource provider and provide a useful depiction of the entity's performance (see paragraph 76 for additional guidance).

Any distinct promise, or distinct group of promises, identified by the entity through this analysis would be an individual compliance obligation.

In cases where multiple parties are involved in the arrangement, the entity will also need to consider whether the nature of its promise in a compliance obligation indicates that the entity is a principal or agent (in accordance with paragraphs AG117–AG125).

D.2 Satisfaction of Compliance Obligations: Methods of Measuring Progress

When an entity satisfies a compliance obligation over time, how does it determine a measure of progress that depicts the entity's performance to satisfy its compliance obligation?

Methods of measuring progress include output methods and input methods (see paragraphs AG86–AG95). After the entity identifies its compliance obligations in its binding arrangement, an entity shall consider the nature of the entity's promise and the specific terms of the binding arrangement to determine the appropriate method of measuring progress.

An entity may first consider all observable and available information associated with satisfying the compliance obligation. This information would be useful for all parties in the binding arrangement to confirm whether the terms of the binding arrangement are being met, and may be explicitly required in the binding arrangement. Observable and available information includes, but is not limited to:

(a) The performance of specified activities;

(b) The incurrence of eligible expenditures;

(c) The requirement to track progress towards achieving outlined milestones;

(d) The production or delivery of specific quantities of goods or services; and

(e) The volume of resources consumed (e.g., labor, materials, machine hours, etc.).

Some types of information are output methods (as they are based on the outputs and outcomes from the satisfaction of the compliance obligation), while other types of information are input methods (as they are based on the entity's efforts or inputs into the satisfaction of the compliance obligation).

The entity should use professional judgment to determine what information, and thus method of measuring progress, most faithfully depicts the entity's performance towards complete satisfaction of the compliance obligation. In making this assessment, the entity should also consider which method of measuring progress:

(a) Better reflects the nature and intent of the entity's promise in the binding arrangement;

(b) More clearly captures the relationship with, and communicates the progress toward, the satisfaction of the compliance obligation;

(c) Uses information that is more reliable and directly observable;

(d) Reflects all relevant performance associated with satisfying the compliance obligation; and

(e) Provides benefits that outweigh the costs of obtaining and tracking the necessary information.

There may be situations in the public sector where resources are passed through a series of entities before being received by the ultimate resource recipient. In these situations, where the entity is one of multiple parties involved in the arrangement, the entity will need to consider whether the nature of its promise and satisfaction of its compliance obligation depends on satisfaction by other parties in the binding arrangement, thereby informing revenue recognition as a principal or agent.

D.3 Satisfaction of Compliance Obligations: Measuring Progress for Capital Transfers

Public sector entities often receive capital transfers for multi-year capital projects. These projects generally include multiple stages of completion and deliverables. Are different principles required to measure an entity's progress on capital transfers?

No. Capital transfers, which arise from transactions with binding arrangements, typically include substantial detail about the various stages in the project (e.g., conception and planning, design, procurement, construction, etc.). As such, these binding arrangements typically entail a large range of available information related to the inputs and outputs of the transaction. For example, the binding arrangement may include specific detailed activities related to the construction, such as clearing the site, building foundations and framing, and pouring concrete. However, the application of the accounting principles for capital transfers is consistent with the accounting for other revenue transactions with binding arrangements. The entity must first identify the individual compliance obligations in the binding arrangement, and carefully determine the appropriate measure of progress for each compliance obligation. The entity shall apply the accounting guidance in paragraphs 98–104 and paragraphs AG86–AG95 to consider all observable and available information. The use of professional judgment is crucial in determining what information, and thus method of measuring progress, most faithfully depicts the entity's progress to fully satisfy the compliance obligation. An entity should also consider revenue recognition independently from the timing of the receipt of resources from the resource provider.

D.4 Allocation Based on Stand-Alone Values

An entity is required to allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis. However, stand-alone value is not always directly observable, and must then be estimated. How should a public sector entity determine the suitable method for estimating the stand-alone value of a good or service?

To estimate stand-alone value, an entity shall first consider all reasonably available information (including, but not limited to, reasonably available data points, entity-specific factors, information about the resource provider or class of resource provider, and the effects of market considerations where relevant).

Based on the reasonably available information, the entity shall determine which method for estimating the stand-alone value most faithfully represents the value of the goods or services promised in the binding arrangement. Paragraph 139 includes examples of suitable methods for estimating the stand-alone value and is not a prescriptive list.

The most suitable method will depend on the quality and type of information available to the entity. For example, the adjusted market assessment approach may be more suitable when the binding arrangement promises goods or services that are readily available in the market, as the price that other entities in the market would be willing to pay may provide a proxy for the value of those goods or services in the binding arrangement. However, the expected cost approach may be more suitable when the binding arrangement promises goods or services that are unique to the entity or the binding arrangement, or which are not readily available in the market. In such cases, the entity's expected costs of satisfying a compliance obligation may provide a more useful estimation of the value of the goods or services in the binding arrangement.

The entity shall be comprehensive in its assessment to maximize the use of observable inputs and be consistent in its application of estimation methods to similar circumstances.

Paragraph 139 also notes that the entity may incorporate a margin in its estimation approach, if appropriate. This may occur if the public sector entity has engaged in a revenue transaction that is exchange-type in nature.

Section E: Multi-Year Arrangements

E.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognize revenue from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (i.e., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements are longer term, the application of accounting principles is consistent with the accounting for other revenue transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in the applicable accounting model to reflect the substance of the transaction. The entity shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset in accordance with paragraphs 18–25, and carefully consider revenue recognition independently from the timing of funding when applying paragraph 29 (if without a binding arrangement) or paragraphs 87-104 (if with a binding arrangement). The entity may need to consider whether any expected inflow of resources in subsequent years meets the definition of an asset, and whether it is interdependent and inseparable from any associated unsatisfied obligations in accordance with paragraph AG57.

Section F: Subsequent Measurement

F.1 Subsequent Measurement for Non-Contractual Receivables

How should an entity subsequently account for receivables from revenue transactions arising outside of contracts?

An entity may recognize a contractual receivable (i.e., a receivable asset that arises from a contract) or a non-contractual receivable. A non-contractual receivable is a receivable asset that does not arise from a contract, such as a binding arrangement that is not a contract or a revenue transaction that is not a binding arrangement (e.g., taxes and other statutory receivables).

After initial recognition, a contractual receivable, which meets the definition of a financial asset per IPSAS 28, *Financial Instruments: Presentation*, is subsequently measured by applying IPSAS 41.

A non-contractual receivable does not strictly meet the definition of a financial asset because it does not arise from a contract. While non-contractual receivables and contractual receivables arise from different types of arrangements, they are consistent in substance and risk exposure, and non-contractual receivables should be subsequently measured by applying IPSAS 41 by analogy to ensure that transactions with the same substance are accounted for using consistent principles. When applying IPSAS 41 principles by analogy, the entity should use judgment to consider the substance of the receivable, and all relevant and readily available data, to form the basis of the revenue "contract by analogy" for which it has a receivable (e.g., legislation, payment terms, etc.). To determine whether its non-contractual receivable meets the criteria in paragraph 40 of IPSAS 41 to be subsequently measured at amortized cost, the entity should consider whether it holds the receivable to collect expected cash flows (in lieu of contractual cash flows) which represent its right to consideration in the transaction. If met, the entity should consider inputs into its impairment analysis under IPSAS 41 accordingly to ensure it appropriately reflects the economic substance of the receivable, including but not limited to the passage of time before the consideration is collectable (i.e., maturity period) and any receivable amounts the entity no longer expects to collect (i.e., expected credit losses). If the criteria in paragraph 40 of IPSAS 41 are not met, the entity would subsequently measure the non-contractual receivable at fair value in accordance with paragraph 31 of this Standard.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 47.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 47, *Revenue*, to particular revenue transactions on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 47.

Identify the Revenue Transaction

IE2. Examples 1–2 illustrate the requirements in paragraphs 9–16 of IPSAS 47 on the determination of whether an entity has entered into a revenue transaction with or without a binding arrangement.

Example 1 – Transaction Arose from an Arrangement that is Not Binding

Case A – No Obligations, No Specified Time Period, and No Reporting to the Government

IE3. A social development entity (the Entity) receives funding of CU5[11] million from a government body (the Government) to fund its employment programs. The agreement requires funding to be spent on programs with the goal of improving employment in the region. If the Entity incurs expenditures to improve employment in the region, it is able to enforce its right to receive funding from the Government. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programs, nor how the Government will receive or verify information on how the funds were spent.

IE4. The Entity concludes that the funding agreement is not a binding arrangement in accordance with paragraph 4 of IPSAS 47. Although the Entity has an enforceable right to resources from the Government if it incurs eligible expenditures, it does not have an enforceable obligation because the Government does not have the ability to enforce how the Entity uses funds in a specific way (e.g., specific programs) or within a specific time period. The Government also has no realistic way to enforce the requirement to spend all of the funds. As a result, the entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue from a transaction without a binding arrangement.

Case B – Specified Time Period to Spend Funds

IE5. The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not change the Entity's conclusion that it has an enforceable right in the funding agreement, but does not have an enforceable obligation. This is because the Government is not able to confirm if and when the Entity spends the funds as stated in the agreement. As a result, this arrangement is not binding and the Entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue.

Case C – Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE6. The same facts as in Case B apply to Case C, except the agreement also specifies how the Entity is to report its spending to the Government, and that any misused or unused funds are to be returned to the Government. The Entity continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving employment in the region. The Entity concludes that it has both an enforceable right and an enforceable obligation. This is because the Government is able to confirm and enforce its requirement for the Entity to spend the funds on improving employment in the

[11] In these examples, monetary amounts are denominated in 'currency units' (CU).

region within the five-year period. The Entity shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Example 2 – Research Grant Arising from a Binding Arrangement

IE7. A research lab (the Lab) enters into an arrangement and receives CU10 million from a local government (the Government) to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing knowhow. The agreement contains specific and measurable milestones that must be met by the Lab; if these milestones are not met, the Lab is required to return all, or a portion, of the funds to the Government. Once the research is complete, there is no requirement in the agreement for the Lab to transfer the findings or any resulting intellectual property to the Government. The Lab is also able to ensure that payment is received from the Government for research work planned or completed.

IE8. Based on these terms, the Lab has concluded that the agreement is a binding arrangement in accordance with paragraph 4 of IPSAS 47, as it has an enforceable obligation to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to consideration for conducting this research project. The Lab shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Enforceability

IE9. Examples 3–7 illustrate the requirements in paragraphs AG14–AG25 of IPSAS 47 on enforceability, which complement the requirements in paragraphs 11–14.

Example 3 – Enforceability by Legal Means

IE10. Pursuant to a ministerial directive, a state government (the Government) signed a memorandum of understanding with the Department of Public Works (Public Works), for Public Works to receive funds to build a government office building. The memorandum is not binding in the court of law, does not impose a refund obligation for Public Works in the event that it fails to perform under the terms of the memorandum, nor does it refer to any other enforcement mechanisms. Although the memorandum is not legally binding, the Government and Public Works relied upon it during their contract negotiations. Public Works commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Public Works has reported to the Government on its first month of work, and the Government has accepted the work performed to date.

IE11. The parties have relied on the memorandum of understanding, as follows:

(a) Public Works has performed construction services in accordance with the terms of the memorandum; and

(b) The work performed to date has been reported to and accepted by the Government.

IE12. Thus, the memorandum is enforceable by law in the parties' jurisdiction based on the concept of promissory estoppel. That is, the Government has the right to use its court of law to ensure that Public Works satisfies the promises in the memorandum or seek redress should they not be satisfied. Similarly, Public Works has the right to use the court of law to enforce the receipt of funds from the Government for work performed to date. As a result, the memorandum is considered enforceable through legal means in accordance with paragraphs AG14–AG18 of IPSAS 47.

Example 4 – Arrangement does not include an Enforceable Obligation

IE13. The national government (the Government) transfers 200 hectares of land in a major city to a university (the University) to establish a university campus. The arrangement 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 or incur another form of compensation.

IE14. 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 University considers paragraphs AG14–AG25 of IPSAS 47 and concludes that the arrangement does not include an enforceable obligation because there is no mechanism to ensure that the University uses the land for a campus, and thus is not a binding arrangement. The University recognizes revenue when it recognizes the land as an asset in accordance with IPSAS 45, *Property, Plant, and Equipment*.

Example 5 – Enforceable Right to Revenue of Aid Agency

Case A – Right to Receive Resources is not Enforceable

IE15. Green-Aid Agency (Agency) is an intergovernmental organization which relies on annual funding from a group of governments to deliver on its initiatives. The Agency has a signed agreement with the government of a sovereign state (State) which specifies the percentage of the Agency's approved budget that the State will fund in 20X2. The agreement indicates that the funds received from the State can only be used to incur eligible expenditures, per the approved 20X2 budget. If funds are not used to incur eligible expenses (e.g., misused or unused), such funds must be repaid to the State at the end of its financial year on December 31, 20X2. The Agency's budget is approved in the preceding October.

IE16. As a result of the terms and conditions in the signed arrangement, the State is able to enforce the appropriate use and any repayment of funds provided to the Agency. The Agency therefore has an enforceable obligation to use resources received from the State for the eligible expenditures approved in the budget year, which meets the definition of a liability.

IE17. Based on past experience, the State is very unlikely to pay what it owes, either during the financial year or at any future time, and the Agency is not able to force the State to pay any amounts owed. Therefore, the Agency does not have an enforceable right to receive an inflow of resources from the State and the arrangement is not binding. The Agency will only recognize an asset when it receives and controls the inflow of resources from the State.

Case B – Right to Receive Resources is Enforceable

IE18. The same facts as Case A apply to Case B, except the Agency is able to prevent the State from participating in the Agency's voting processes if it does not transfer resources in accordance with the signed arrangement after the budget is approved. In this scenario, the Agency has the ability to enforce its right to receive resources (i.e., an enforceable right). As a result, each party in the arrangement has both an enforceable right and an enforceable obligation, and the arrangement is thus a binding arrangement.

Example 6 – Obligation in a Revenue Arrangement is not in Substance Enforceable

IE19. National Park Department of Country A (the Department) enters into an arrangement and receives a transfer of CU500,000 from the Bilateral Aid Agency of Country B (the Agency). The arrangement specifies that the transferred resources are required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, and returned to the Agency if the money is not used for the stated purpose. The terms of the agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that the Department has received a transfer of this type from this Agency. In prior years, the transferred resources have not been used as specified; rather, they have been used to acquire additional land adjacent to national parks for expansion purposes. The Department has not conducted any rehabilitation of deforested areas in the past thirteen years. The Agency is aware of the previous breaches of the agreement terms.

IE20. The Department analyzes the transaction and concludes that, although the terms of the agreement are enforceable, such terms do not in substance hold the Department accountable to using the transfer as specified. This is because the Agency has not previously enforced the requirements of its transfers, and given no indication that it ever would. Thus, the arrangement includes the form but not the substance of an enforceable obligation (see paragraph AG25), and the arrangement would not be a binding arrangement. Therefore, the Department recognizes an increase in an asset (for the transfer received) and revenue.

Example 7 – Revenue Subject to Completion of the Appropriations Process

IE21. A national government (Government N) and local government (Government L) both have a financial year end of December 31. On March 15, 20X2, Government N enters into a two-year arrangement with Government L to transfer CU15 million (CU10 million in 20X2 and CU5 million in 20X3) to Government L, to be used to reduce air pollution in accordance with Government N's policy. The arrangement includes a term that it is subject to the completion of the appropriation process.

IE22. Parliament completes the appropriation process for CU10 million on March 31, 20X2, and transfers the resources on April 15, 20X2. The appropriation for CU5 million is not completed in March 20X2 but is considered at a later date as part of the appropriation process for 20X3. Once resources are transferred, Government L is required to use the resources to reduce air pollution or be required by law to repay, which constitutes an enforceable obligation.

Case A – Requirement to Complete the Appropriation Process has Substance

IE23. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires Government N to fund such initiatives. The arrangement is clear that the funding is subject to the completion of the appropriation process, which is not certain, and that the amount may be reduced. Government L applies paragraphs AG14–AG25 of IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

IE24. Government L considers substance over form to determine the effect of this term. Government L concludes that it is not able to require Government N to transfer resources nor impose consequences of not doing so. Consequently, the term has substance, and Government L does not have an enforceable right to resources until the appropriation process is completed for each year's amount. The enforceable right to resources would meet the definition of an asset on March 31, 20X2 when the appropriation process is completed, and the arrangement now meets the definition of a binding arrangement. However, Government L would not recognize an asset or liability in its statement of financial position as at March 31, 20X2 because the binding arrangement is wholly unsatisfied.

IE25. On April 15, 20X2, Government L recognizes an asset of CU10 million, and an equivalent liability, when it receives the resources. It does not recognize an asset for the CU5 million, as the appropriation process for the 20X3 amount has not been completed. Government L considers whether to disclose the CU5 million as a contingent asset in accordance with paragraph 24 in the 20X2 notes to its general purpose financial statements. Government L will assess the accounting implications of the authorization process in 20X3 for the remaining CU5 million.

Case B – Requirement to Complete the Appropriation Process does not have Substance

IE26. Authorizing legislation requires Government N to invest in measures to reduce air pollution, and the arrangement is a firm commitment by Government N to meet its legislative obligations by investing in specific measures, set out in the arrangement, to be undertaken by Government L. Government L applies paragraphs AG14–AG25 of IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

IE27. Government L considers substance over form to determine the effect of this term. Government L concludes that it has an enforceable right prior to the completion of the appropriation process because the legislation to invest in measures to reduce air pollution provides enforceability through equivalent means. Consequently, the term does not have substance. Thus, Government L has an enforceable right to resources on March 15, 20X2, which would meet the definition of an asset and the arrangement meets the definition of a binding arrangement. However, Government L would not recognize an asset or liability in its statement of financial position as at March 15, 20X2 because the binding arrangement is wholly unsatisfied.

IE28. On April 15, 20X2, Government L recognizes an asset of CU10 million, and an equivalent liability. It does not recognize an asset for the CU5 million. Government L will assess the accounting implications of the authorization process in 20X3 for the remaining CU5 million.

Revenue from Transactions without Binding Arrangements

Example 8 – Advance Receipts of Income Tax

IE29. The Government 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.

IE30. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year because the taxable event is the earning of income during the taxation period, which has not commenced. The Government recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts) in accordance with paragraph 44 of IPSAS 47.

Revenue from Transactions with Binding Arrangements

Criteria to Apply the Binding Arrangement Model

IE31. Examples 9–12 illustrate the requirements in paragraphs 56–61 of IPSAS 47 on whether to use the binding arrangement model. In addition, the following requirements are illustrated in these examples:

(a) The interaction of paragraph 146 of IPSAS 47 with paragraphs 109 and 115 of IPSAS 47 on estimating variable consideration (Examples 10–11); and

(b) Paragraph AG180 of IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 12).

Example 9 – Collectability of the Consideration

IE32. A local government (the Government) has a portfolio of properties that are rented at below-market prices to qualifying residents (Residents). After a number of years, a Resident is able to purchase the unit as part of a rent-to-own housing program. The price of the unit will be based on the then current market value less the accumulated rent paid to date by the Resident. The program allows the Residents to pay the price over a period of 20 years, but the payments may cease once Residents have reached the age to begin collecting their superannuation, and the future payments will depend on the Resident's level of income at that time. At the inception of the binding arrangement to purchase the unit, a Resident is required to pay a non-refundable deposit of CU5,000 and enter into a long-term financing agreement with the Government for the remaining balance of the promised consideration.

IE33. As part of this rent-to-own program, the Government enters into a binding arrangement with a Resident for the sale of a residential unit with a market price of CU400,000. Up to the time of the purchase, the Resident had cumulatively paid CU150,000 in rent to the Government, so the purchase price for the unit was CU250,000. The Resident pays the non-refundable deposit of CU5,000 at the inception of the binding arrangement and enters into a long-term financing agreement with the Government for the remaining CU245,000 of the promised consideration. However, the Resident is only expected to pay CU180,000 (including the CU5,000 deposit) until they begin to collect their superannuation, and at that time, their expected level of income will result in payments ceasing. The Resident obtains control of the unit at the inception of the binding arrangement and payment of the CU5,000 deposit.

IE34. In assessing whether the binding arrangement meets the criteria in paragraph 56 of IPSAS 47, the Government concludes that the criterion in paragraph 56(e) of IPSAS 47 is not met for the full CU250,000 because it is not probable that it will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the Government observes that the Resident may only pay up to CU180,000 based on the terms of the program.

IE35. Because the criteria in paragraph 56 of IPSAS 47 are not all met, the Government applies paragraphs 58 and 81–86 of IPSAS 47 to determine the accounting for the non-refundable deposit of CU5,000. The Government observes that the events described in paragraph 58(a) have occurred—that is, the Government has transferred control of the building to the Resident, and the Government has no obligation to transfer additional goods or services for the CU5,000 payment received, and the payment is non-refundable. Consequently, in accordance with paragraph 58, the Government recognizes the non-refundable CU5,000 payment as revenue upon receipt.

Example 10 – Consideration is not the Stated Price—Implicit Price Concession

IE36. A government pharmaceutical agency (the Agency) provides 1,000 units of a prescription drug to a hospital for promised consideration of CU1 million. The price of the drugs is regulated, so the Agency has no discretion on pricing. The Agency expects that it will not be able to collect from the hospital the full amount of the promised consideration due to a medical crisis occurring in the region which is diverting the hospital's resources.

IE37. When assessing whether the criterion in paragraph 56(e) of IPSAS 47 is met, the Agency also considers paragraphs 109 and 115(b) of IPSAS 47. Based on the assessment of the facts and circumstances, the Agency determines that it expects to provide a price concession and accept a lower amount of consideration from the hospital. Accordingly, the Agency concludes that the transaction consideration is not CU1 million and the promised consideration is variable. The Agency estimates the variable consideration and determines that it expects to be entitled to CU400,000.

IE38. The Agency considers the hospital's ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty, it is probable that it will collect CU400,000 from the hospital. Consequently, the Agency concludes that the criterion in paragraph 56(e) of IPSAS 47 is met based on an estimate of variable consideration of CU400,000. In addition, on the basis of an evaluation of the binding arrangement terms and other facts and circumstances, the Agency concludes that the other criteria in paragraph 56 of IPSAS 47 are also met. Consequently, the Agency accounts for the binding arrangement with the hospital, with a transaction consideration of CU400,000, in accordance with paragraphs 56–147 in IPSAS 47.

Example 11 – Compelled Revenue Transaction—Implicit Price Concession

IE39. A government hospital (the Hospital) provides medical services to an uninsured patient in the emergency room. The Hospital is required by law to provide medical services to all emergency room patients, and patients are required to pay, and the arrival of a patient in the emergency room constitutes the initiation of a binding arrangement. Because of the patient's condition upon arrival at the Hospital, the Hospital was compelled under legislation to provide the services immediately and, therefore, before the Hospital can determine whether the patient is committed to satisfying its obligation to pay for services received in exchange for the medical services provided. Consequently, the binding arrangement does not meet all of the criteria in paragraph 56 of IPSAS 47 and, in accordance with paragraph 58 of IPSAS 47, the Hospital will continue to assess its conclusion based on updated facts and circumstances.

IE40. After providing services, the Hospital obtains additional information about the patient including a review of the services provided, standard rates for such services, and the patient's ability and intention to pay the Hospital for the services provided. During the review, the Hospital notes its standard rate for the services provided in the emergency room is CU10,000. The Hospital also reviews the patient's information and, consistent with its policies, designates the patient to a purchaser class based on the Hospital's assessment of the patient's ability and intention to pay.

IE41. The Hospital considers paragraphs 109 and 115(b) of IPSAS 47. Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient), the Hospital expects to accept a lower amount of consideration in exchange for the services. Accordingly, the Hospital concludes that the transaction consideration is not CU10,000 and, therefore, the promised consideration is variable. The Hospital reviews its historical cash collections from this purchaser class and other relevant information about the patient. The Hospital estimates the variable consideration and determines that it expects to collect CU1,000.

IE42. In accordance with paragraph 56(e) of IPSAS 47, the Hospital evaluates the patient's ability and intention to pay (i.e., the credit risk of the patient). On the basis of its collection history from patients in this purchaser class, the Hospital concludes it is probable that the Hospital will collect CU1,000 (the estimate of variable consideration). In addition, on the basis of an assessment of the binding arrangement terms and other facts and circumstances, the Hospital concludes that the other criteria in paragraph 56 of IPSAS 47 are also met. Consequently, the Hospital accounts for the binding arrangement with the patient, at a transaction consideration of CU1,000, in accordance with the requirements in IPSAS 47.

Example 12 – Reassessing the Criteria to Apply the Binding Arrangement Model

IE43. The Department of Natural Resources (the Department) issues a permit to mine minerals to a private sector mining company (the Company) in exchange for a royalty based on the amount of minerals extracted. At inception, the binding arrangement meets all the criteria in paragraph 56 of IPSAS 47 and the Department accounts for the binding arrangement with the Company in accordance with paragraphs 56–147 in IPSAS 47. The Department recognizes revenue when the Company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG180 of IPSAS 47.

IE44. Throughout the first year of the binding arrangement, the Company provides quarterly extraction reports and pays within the agreed-upon period.

IE45. During the second year of the binding arrangement, the Company continues to extract minerals from the property, but its financial condition declines. The Company's current access to credit and available cash on hand are limited. The Department continues to recognize revenue on the basis of the Company's extraction throughout the second year. The Company pays the first quarter's royalties but does not pay the full royalty payments for the usage of the permit in Quarters 2–4. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.

IE46. During the third year of the binding arrangement, the Company continues to use the permit issued by the Department. However, the Department learns that the Company has lost access to credit and its major customers, and thus the Company's ability to pay significantly deteriorates. The Department therefore concludes that it is unlikely that the Company will be able to make any further royalty payments for ongoing usage of the mining permit. As a result of this significant change in facts and circumstances, in accordance with paragraph 57 of IPSAS 47, the Department reassesses the criteria in paragraph 56 of IPSAS 47 and determines that they are not met because it is no longer probable that the Department will collect the consideration to which it will be entitled. Accordingly, the Department does not recognize any further revenue associated with the Company's future usage of its permit. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41.

Modifications

IE47. Examples 13–15 illustrate the requirements in paragraphs 63–66 of IPSAS 47 on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 68–77 of IPSAS 47 on identifying compliance obligations (Example 15);

(b) Paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration (Examples 14 and 15); and

(c) Paragraphs 144–147 of IPSAS 47 on changes in the transaction consideration (Example 14).

Example 13 – Modification of a Binding Arrangement for Goods

IE48. An intergovernmental organization (the Organization) promises to provide 1.2 million textbooks to a national government (the Government) for CU12 million (CU10 per textbook). The textbooks are transferred to the Government over a six-month period. The CU12 million is funded by the Organization's donors. The Organization transfers control of each textbook at a point in time. After the Organization has transferred control of 600,000 textbooks to the Government, the binding arrangement is modified to require the delivery of an additional 300,000 textbooks (a total of 1.5 million identical textbooks) to the Government. The additional 300,000 textbooks were not included in the initial binding arrangement.

Case A—Additional Products for a Price that Reflects the Stand-Alone Value

IE49. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 textbooks is an additional CU2.85 million or CU9.5 per textbook. The pricing for the additional textbooks reflects the stand-alone value of the textbooks at the time of the modification to the binding arrangement and the additional textbooks are distinct (in accordance with paragraph 73 of IPSAS 47) from the original textbooks.

IE50. In accordance with paragraph 65 of IPSAS 47, the modification to a binding arrangement for the additional 300,000 textbooks is, in effect, a new and separate binding arrangement for future textbooks that does not affect the accounting for the existing binding arrangement. The Organization recognizes revenue of CU10 per textbook for the 1.2 million textbooks in the original binding arrangement and CU9.5 per textbook for the 300,000 textbooks in the new binding arrangement.

Case B—Additional Products for a Price that Does not Reflect the Stand-Alone Value

IE51. During the process of negotiating the purchase of an additional 300,000 textbooks, the parties initially agree on a price of CU8.0 per textbook. However, the Government and the donors discover that the initial 600,000 textbooks provided by the Organization contained minor misprints. The Organization promises a partial credit of CU1.5 per textbook to compensate the donors for the poor quality of those textbooks. The Department and the donors agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 textbooks) into the amount that the Organization will require for the additional 300,000 textbooks. Consequently, the modification to the binding arrangement specifies that the price of the additional 300,000 textbooks is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 textbooks of CU2.4 million, or CU8.0 per textbook, less the credit of CU900,000.

IE52. At the time of modification, the Organization recognizes the CU900,000 as a reduction of the transaction consideration and, therefore, as a reduction of revenue for the initial 600,000 textbooks transferred. In accounting for the sale of the additional 300,000 textbooks, the Organization determines that the negotiated price of CU8.0 per product does not reflect the stand-alone value of the additional textbooks. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 65 of IPSAS 47 to be accounted for as a separate binding arrangement. Because the remaining textbooks to be delivered are distinct from those already transferred, the Organization applies the requirements in paragraph 66(a) of IPSAS 47 and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE53. Consequently, the amount recognized as revenue for each of the remaining textbooks is a blended price of CU9.33 {[(CU10 × 600,000 textbooks not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 textbooks to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining textbooks}.

Example 14 – Change in the Transaction Consideration after a Modification of a Binding Arrangement

IE54. On July 1, 20X0, the Department of Defense (the Department) promises to transfer two distinct used military products, a light-armored vehicle and spare parts, to a foreign government (Government F). The light-armored vehicle is transferred to Government F at the inception of the binding arrangement and spare parts are transferred on March 31, 20X1. The consideration promised by Government F includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Department includes its estimate of variable consideration in the transaction consideration because it concludes that it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved.

IE55. The transaction consideration of CU1.2 million is allocated equally to the compliance obligation for the light-armored vehicle and the compliance obligation for spare parts. This is because both products have the same stand-alone values and the variable consideration does not meet the criteria in paragraph 142 that requires allocation of the variable consideration to one but not both of the compliance obligations.

IE56. When the light-armored vehicle was transferred to Government F at the inception of the binding arrangement, the Department recognizes revenue of CU600,000.

IE57. On November 30, 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to Government F on June 30, 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone value of ammunition. The stand-alone value of ammunition is the same as the stand-alone values of the light-armored vehicle and spare parts.

IE58. The Department accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining spare parts and ammunition are distinct from the light-armored vehicle, which had transferred to Government F before the modification, and the promised consideration for the ammunition does not represent its stand-alone value. Consequently, in accordance with paragraph 66(a) of IPSAS 47, the consideration to be allocated to the remaining compliance obligations comprises the consideration that had been allocated to the compliance obligation for spare parts (which is measured at an allocated transaction consideration amount of CU600,000) and the consideration promised in the modification (fixed consideration of CU300,000). The transaction consideration for the modified binding arrangement is CU900,000 and that amount is allocated equally to the compliance obligation for spare parts and the compliance obligation for ammunition (i.e., CU450,000 is allocated to each compliance obligation).

IE59. After the modification but before the delivery of spare parts and ammunition, the Department revises its estimate of the amount of variable consideration to which it expects to be entitled to CU240,000 (rather than the previous estimate of CU200,000). The Department concludes that the change in estimate of the variable consideration can be included in the transaction consideration, because it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph 66(a) of IPSAS 47, the increase in the transaction consideration of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 147 of IPSAS 47, the change in the transaction consideration is allocated to the compliance obligations for the light-armored vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Department recognizes revenue of CU20,000 for the light-armored vehicle in the period in which the change in the transaction consideration occurs. Because the spare parts had not transferred to Government F before the modification to a binding arrangement, the change in the transaction consideration that is attributable to spare parts is allocated to the remaining compliance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 66(a) of IPSAS 47 if that amount of variable consideration had been estimated and included in the transaction consideration at the time of the modification of a binding arrangement.

IE60. The Department then also allocates the CU20,000 increase in the transaction consideration for the modified binding arrangement equally to the compliance obligations for spare parts and ammunition. This is because the products have the same stand-alone values and the variable consideration does not meet the criteria in paragraph 142 that require allocation of the variable consideration to one but not both of the compliance obligations. Consequently, the amount of the transaction consideration allocated to the compliance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE61. On March 31, 20X1, the spare parts are transferred to Government F and the Department recognizes revenue of CU460,000. On June 30, 20X1, the ammunition is transferred to the foreign government and the Department recognizes revenue of CU460,000.

Example 15 – Modification Resulting in a Cumulative Catch-up Adjustment to Revenue

IE62. The Department of Public Works (Public Works) enters into a binding arrangement to construct a residential building for the Department of Housing (Housing) on land owned by Housing for promised consideration of CU10 million and a bonus of CU2 million if the building is completed within 24 months. Public Works accounts for the promised bundle of goods and services as a single compliance obligation satisfied over time in accordance with paragraph AG72(b) of IPSAS 47 because Housing controls the building during construction. At the inception of the binding arrangement, Public Works expects the following:

	CU
Transaction consideration	10,000,000
Expected costs	9,000,000
Expected surplus (10%)	1,000,000

IE63. At the inception of the binding arrangement, Public Works excludes the CU2 million bonus from the transaction consideration because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE64. Public Works determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the compliance obligation. By the end of the first year, Public Works has satisfied 60 percent of its compliance obligation on the basis of costs incurred to date (CU5.4 million) relative to total expected costs (CU9 million). Public Works reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 119–121 of IPSAS 47. Consequently, the cumulative revenue and costs recognized for the first year are as follows:

	CU
Revenue	6,000,000
Costs	5.400,000
Surplus	600,000

IE65. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by CU1.5 million and CU1.2 million, respectively. Total potential consideration after the modification is CU13.5 million (CU11.5 million fixed consideration + CU2 million completion bonus). In addition, the allowable time for achieving the CU2 million bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, Public Works concludes that it is highly probable that including the bonus in the transaction consideration will not result in a significant reversal in the amount of cumulative revenue recognized in accordance with paragraph 119 of IPSAS 47 and includes the CU2 million in the transaction consideration. In assessing the modification to a binding arrangement, Public Works evaluates paragraph 73(b) of IPSAS 47 and concludes (on the basis of the factors in paragraph 76 of IPSAS 47) that the remaining goods and services to be provided using the modified binding arrangement are not distinct from the goods and services transferred on or before the date of modification to a binding arrangement; that is, the binding arrangement remains a single compliance obligation.

IE66. Consequently, Public Works accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 66(b) of IPSAS 47). Public Works updates its measure of progress and estimates that it has satisfied 52.9 percent of its compliance obligation (CU5.4 million actual costs incurred ÷ CU10.2 million total expected costs). Public Works recognizes additional revenue of CU1.14 million [(52.9 percent complete × CU13.5 million modified transaction consideration) – CU6 million revenue recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Identifying Compliance Obligations in a Binding Arrangement

IE67. Examples 16–19 illustrate the requirements in paragraphs 68–77 of IPSAS 47 on identifying compliance obligations.

Example 16 – Determining Whether Goods or Services are Distinct

Case A – Distinct Goods or Services

IE68. A government shared IT services agency (the Agency) enters into a binding arrangement with a state government (the State Government) to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The Agency provides the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE69. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 73 of IPSAS 47. The Agency observes that the software is delivered before the other goods and services, and remains functional without the updates and the technical support. The State Government can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the Agency concludes that the State Government can generate economic benefits or service potential from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 73(a) of IPSAS 47 is met.

IE70. The Agency also considers the principle and the factors in paragraph 76 of IPSAS 47 and determines that the promise to transfer each good and service to the State Government is separately identifiable from each of the other promises (thus the criterion in paragraph 73(b) of IPSAS 47 is met). In reaching this determination, the Agency considers that, although it integrates the software into the State Government's system, the installation services do not significantly affect the State Government's ability to use and generate economic benefits or service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the State Government's ability to use, and benefit or receive service potential from, the software license during the license period. The Agency further observes that none of the promised goods or services significantly modify or customize one another, nor is the Agency providing a significant service of integrating the software and the services into a combined output. Lastly, the Agency concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the Agency would be able to satisfy its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

IE71. On the basis of this assessment, the Agency identifies four compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The software license;

(b) An installation service;

(c) Software updates; and

(d) Technical support.

IE72. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each of the compliance obligations for the installation service, software updates and technical support is satisfied at a point in time or over time. The Agency also assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG173 of IPSAS 47.

Case B – Significant Customization

IE73. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation service, the software is to be substantially customized to add significant new functionality to enable the software to interface with other customized software applications used by the State Government. The customized installation service can be provided by other entities.

IE74. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 73 of IPSAS 47. The Agency first assesses whether the criterion in paragraph 73(a) has been met. For the same reasons as in Case A, the Agency determines that the software license, installation, software updates and technical support each meet that criterion. The Agency next assesses whether the criterion in paragraph 73(b) has been met by evaluating the principle and the factors in paragraph 76 of IPSAS 47. The Agency observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licensed software into the existing software system by performing a customized installation service as specified in the binding arrangement. In other words, the Agency is using the license and the customized installation service as inputs to produce the combined output (i.e., a functional and integrated software system) specified in the binding arrangement (see paragraph 76(a) of IPSAS 47). The software is significantly modified and customized by the service (see paragraph 76(b) of IPSAS 47). Consequently, the Agency determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph 73(b) of IPSAS 47 is not met. Thus, the software license and the customized installation service are not distinct.

IE75. On the basis of the same analysis as in Case A, the Agency concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

IE76. On the basis of this assessment, the Agency identifies three compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) Software customization (which comprises the license for the software and the customized installation service);

(b) Software updates; and

(c) Technical support.

IE77. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Case C – Promises are Separately Identifiable (Installation)

IE78. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of equipment and installation services. The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE79. The Agency identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The Agency assesses the criteria in paragraph 73 of IPSAS 47 to determine whether each promised good or service is distinct. The Agency determines that the equipment and the installation each meet the criterion in paragraph 73(a) of IPSAS 47. The State Government can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers). The State Government also can generate economic benefits or service potential from the installation services together with other resources that the State Government will already have obtained from the Agency (i.e., the equipment).

IE80. The Agency further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 73(b) of IPSAS 47). The Agency considers the principle and the factors in paragraph 76 of IPSAS 47 in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors in paragraph 76 of IPSAS 47 contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The Agency is not providing a significant integration service. That is, the Agency has promised to deliver the equipment and then install it; the Agency would be able to satisfy its promise to transfer the equipment separately from its promise to subsequently install it. The Agency has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The Agency's installation services will not significantly customize or significantly modify the equipment.

(c) Although the State Government can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the Agency would be able to satisfy its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

IE81. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The equipment; and

(b) Installation services.

IE82. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Case D – Promises are Separately Identifiable (Restrictions to a Binding Arrangement)

IE83. Assume the same facts as in Case C, except that the State Government is required to use the Agency's installation services in the binding arrangement.

IE84. The binding arrangement requirement to use the Agency's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the binding arrangement requirement to use the Agency's installation services does not change the characteristics of the goods or services themselves, nor does it change the Agency's promises to the State Government. Although the State Government is required to use the Agency's installation services, the equipment and the installation services are capable of being distinct (i.e., they each meet the criterion in paragraph 73(a) of IPSAS 47) and the Agency's promises to provide the equipment and to provide the installation services are each separately identifiable (i.e., they each meet the criterion in paragraph 73(b) of IPSAS 47). The Agency's analysis in this regard is consistent with that in Case C.

Case E – Promises are Separately Identifiable (Consumables)

IE85. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) and to provide specialized consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the Agency but are provided separately by the Agency.

IE86. The Agency determines that the State Government can generate economic benefits or service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 75 of IPSAS 47, because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The State Government can generate economic benefits or service potential from the consumables that will be delivered under the binding arrangement, together with the delivered equipment that is transferred to the State Government initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 73(a) of IPSAS 47.

IE87. The Agency determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 73(b) of IPSAS 47. In determining that the equipment and the consumables are not inputs to a combined item in this binding arrangement, the Agency considers that it is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customized or modified by the other. Lastly, the Agency concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the State Government can generate economic benefits or service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the Agency would be able to satisfy each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to satisfy its promise to transfer the equipment, even if the State Government did not purchase any consumables, and would be able to satisfy its promise to provide the consumables, even if the State Government acquired the equipment separately.

IE88. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The equipment; and

(b) The consumables.

IE89. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Example 17 – Goods and Services are not Distinct

Case A – Significant Integration Service: Hospital Construction

IE90. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Health to build a hospital. Public Works is responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE91. The promised goods and services are capable of being distinct in accordance with paragraph 73(a) of IPSAS 47. That is, the Department of Health can generate economic benefits or service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that Public Works regularly provides many of these goods and services separately to other purchasers, as do comparable construction entities. In addition, the Department of Health could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE92. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 73(b) of IPSAS 47 (on the basis of the factors in paragraph 76 of IPSAS 47). This is evidenced by the fact that Public Works provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Department of Health has entered into a binding arrangement.

IE93. Because the criterion in paragraph 73(b) of IPSAS 47 is not met, the goods and services are not distinct. Public Works accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Case B – Significant Integration Service: Road Trains Production and Delivery

IE94. The Department of Research Sciences (the Department) enters into a binding arrangement with a local government (the Government) that will result in the delivery of multiple highly complex, specialized road trains. The terms of the binding arrangement require the Department to establish a manufacturing process in order to produce the road trains. The specifications are unique to the Government, based on a custom design that is owned by the Government and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Department is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE95. The Department assesses the promises in the binding arrangement and determines that each of the promised road trains is capable of being distinct in accordance with paragraph 73(a) of IPSAS 47 because the Government can generate economic benefits or service potential from each road train on its own. This is because each road train can function independently of the other road trains.

IE96. The Department observes that the nature of its promise is to establish and provide a service of producing the full complement of road trains for which the Government has entered into a binding arrangement in accordance with the Government's specifications. The Department considers that it is responsible for the overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting road trains (the combined output). Therefore, the road trains and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph 73(b) and paragraph 76 of IPSAS 47. In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the Government. In addition, the nature of the Department's performance and, in particular, the significant integration service of the various activities means that a change in one of the Department's activities to produce the road trains has a significant effect on the other activities required to produce the highly complex, specialized road trains such that the Department's activities are highly interdependent and highly interrelated.

IE97. Because the criterion in paragraph 73(b) of IPSAS 47 is not met, the goods and services that will be provided by the Department are not distinct. The Department accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Case C – Significant Integration Service: Emergency Response

IE98. An Emergency Aid Agency (the Agency) enters into an arrangement with an International Development Organization (the Organization) and receives CU1 million to provide emergency flood response services to the citizens in an affected region which did not have sufficient resources to respond to the crisis. The Agency has applied paragraphs 9–16 of IPSAS 47 and determined that the arrangement is a binding arrangement. Under the terms of the binding arrangement, the Agency is required to acquire blankets and shelter sheets, and to purchase various types of equipment such as water pumps, reservoirs, buckets, and brooms to provide cleanup services. The terms of the binding arrangement stated that the Agency may also need to engage in other activities or incur eligible expenditures that are not explicitly listed but are necessary to meet the overall objective of providing emergency flood response services to affected citizens. The Agency noted that, in the context of the binding arrangement, the transport and distribution of the purchased blankets and shelter sheets are not explicitly listed in the binding arrangement but would qualify as an eligible expenditure that is necessary and therefore is an implicit promised service.

IE99. The promised goods and services are capable of being distinct in accordance with paragraph 73(a) of IPSAS 47 because the citizens in the affected region are able to generate economic benefits or service potential from the supplies and cleanup services either on their own or together with other resources readily available.

IE100. However, the Agency determines that the promised goods and services to be transferred to the citizens are not separately identifiable in accordance with paragraph 73(b) of IPSAS 47 on the basis of the factors in paragraph 76 of IPSAS 47. This is because the nature of its promise in the binding arrangement is to meet the immediate emergency needs and provide prompt humanitarian assistance to citizens in the affected region. The Agency notes that in order to meet the terms of the binding arrangement, it is required to provide a significant service of integrating the goods or services (the inputs) to provide emergency flood response services (the combined output).

IE101. Because the criterion in paragraph 73(b) of IPSAS 47 is not met, the goods and services are not distinct. Rather, the combined bundle of goods and services in the binding arrangement is distinct. The Agency accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Example 18 – Transfer of Resources to Another Level of Government with Compliance Obligations

IE102. The national government (Government N) provides CU10 million to a provincial government (Government P) 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 a new railroad or tramway system, and 20 percent for the purchase of rolling stock. Under the terms of the binding arrangement, the money can only be used as specified and any misused or unused amounts must be repaid to Government N. Furthermore, Government P is required to include a note in its audited general purpose financial statements detailing how the transferred resources were spent. The binding arrangement requires the resources to be spent as specified in the current year or be returned to Government N.

IE103. Government P recognizes the inflow of CU10 million as an asset, and an equivalent liability because it is required to transfer resources back to Government N if it does not satisfy the compliance obligations in the binding arrangement.

IE104. Government P notes that various goods and services not explicitly stated in the binding arrangement are required to satisfy the binding arrangement. For example, certain goods and services would be required to modernize the existing railroad and tramway system, while other goods and services would be required to build a new railroad or tramway system. Thus, Government P conducts a thorough assessment to identify all goods and services inherently promised in the binding arrangement. It then determines that the promised goods and services are capable of being distinct in accordance with paragraph 73(a) of IPSAS 47 because Government N can generate economic benefits or service potential from each good and service on its own or together with other readily available resources.

IE105. Considering the context of the binding arrangement, Government P observes that the nature of its promise in the binding arrangement is to use the resources in three individually specific ways rather than in a combined manner:

(a) The goods and services to modernize the existing railroad and tramway system represent a single combined output: the modernization of the existing system. Government P provides a significant service of integrating these goods and services into a single output that is separately identifiable from other goods or services in the binding arrangement. Similarly, the goods and services to build a new railroad or tramway system represent a single combined output, and the purchase of rolling stock represents a single output; and

(b) Government P is not significantly integrating these three combined outputs, nor do the outputs significantly modify, customize, or depend on each other. Rather, Government P is responsible for generating three separately identifiable outputs in accordance with paragraphs 73(b) and 76 of IPSAS 47: the modernization work, the new system, and the rolling stock.

IE106. Because both criteria in paragraph 73 of IPSAS 47 are met, the binding arrangement contains three separate compliance obligations;

(a) The compliance obligation to use CU4 million for modernizing the existing railroad and tramway system;

(b) The compliance obligation to use CU4 million for a new railroad or tramway system; and

(c) The compliance obligation to use CU2 million for purchasing rolling stock.

IE107. Government P reduces the liability as or when it satisfies the compliance obligations, and recognizes revenue in the statement of financial performance of the reporting period.

Example 19 – Explicit and Implicit Promises in a Binding Arrangement

IE108. A government entity (the Government), with the objective of providing broadband internet services to citizens in rural areas, provides modem equipment to a telecommunications company (the Telecom) (i.e., the Government's purchaser) who will then resell it to members of the public (i.e., the Telecom's customers) for below-market prices.

Case A—Explicit Promise of Service

IE109. In the binding arrangement with the Telecom, the Government promises to provide maintenance services for no additional consideration (i.e., 'free') to any end customer (i.e., members of the public) who purchased a modem from the Telecom. The Government outsources the performance of the maintenance services to the Telecom and pays the Telecom an agreed-upon amount for providing those services on the Government's behalf. If the end customer does not use the maintenance services, the Government is not obligated to pay the Telecom.

IE110. The binding arrangement with the Telecom includes two promised goods or services: (a) the modem and (b) the maintenance services. The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the Government and the Telecom. The Government assesses whether each good or service is distinct in accordance with paragraph 73 of IPSAS 47. The Government determines that both the product and the maintenance services meet the criterion in paragraph 73(a) of IPSAS 47. The Government provides the modem on a stand-alone basis, which indicates that the Telecom can generate economic benefits or service potential from the modem on its own. The Telecom can generate economic benefits or service potential from the maintenance services together with a resource the Telecom already has obtained from the Government (i.e., the modem).

IE111. The Government further determines that its promises to transfer the modem and to provide the maintenance services are separately identifiable (in accordance with paragraph 73(b) of IPSAS 47 on the basis of the principle and the factors in paragraph 76 of IPSAS 47). The modem and the maintenance services are not inputs to a combined item in the binding arrangement. The Government is not providing a significant integration service because the presence of the modem and the services together in this binding arrangement do not result in any additional or combined functionality. In addition, neither the modem nor the services modify or customize the other. Lastly, the modem and the maintenance services are not highly interdependent or highly interrelated because the Government would be able to satisfy each of the promises in the binding arrangement independently of its efforts to satisfy the other (i.e., the Government would be able to transfer the modem even if the Telecom (through the individual end customers) declined maintenance services, and would be able to provide maintenance services in relation to modems provided previously through other distributors). The Government also observes, in applying the principle in paragraph 76 of IPSAS 47, that the Government's promise to provide maintenance is not necessary for the product to continue to provide significant economic benefits or service potential to the Telecom. Consequently, the Government concludes that there are two compliance obligations (i.e., the modem and the maintenance services) in the binding arrangement.

Case B—Implicit Promise of Service

IE112. Continuing with the fact pattern in Case A, the Government has historically provided maintenance services for no additional consideration (i.e., 'free') to end customers in rural areas who purchased the Government's modem from the Telecom. The Government is now rolling out a similar program to urban areas. During the negotiations on this new urban program, the Government does not explicitly promise maintenance services during negotiations with the Telecom and the final binding arrangement between the Government and the Telecom does not specify terms or conditions for those services.

IE113. However, on the basis of its customary practice, the Government determines at the inception of the new binding arrangement that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the Telecom. That is, the Government's past practices of providing these services in rural areas create valid expectations of the Government's purchasers (i.e., the Telecom) in accordance with paragraph 71 of IPSAS 47. Consequently, the Government assesses whether the promise of maintenance services is a compliance obligation. For the same reasons as in Case A, the Government determines that the product and maintenance services are separate compliance obligations.

Case C—Services are not a Promised Service

IE114. As a further variation from Cases A and B, in the binding arrangement with the Telecom, the Government does not promise to provide any maintenance services. In addition, the Government typically does not provide maintenance services and, therefore, the Government's customary practices, published policies and specific statements at the time of entering into the binding arrangement have not created an implicit promise to provide goods or services to its purchasers. The Government transfers control of the modem to the Telecom and, therefore, the binding arrangement is completed. However, before the sale to the Telecom's end customers, the Government makes an offer to provide maintenance services to any party that purchases a modem from the Telecom for no additional promised consideration.

IE115. The promise of maintenance is not included in the binding arrangement between the Government and the Telecom at the inception of the binding arrangement. That is, in accordance with paragraph 71 of IPSAS 47, the Government does not explicitly or implicitly promise to provide maintenance services to the Telecom or the end customers. Consequently, the Government does not identify the promise to provide maintenance services as a compliance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

IE116. Although the maintenance services are not a promised service in the current binding arrangement, in future binding arrangements with the Telecom or other telecommunications companies, the Government would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Recognition of Revenue Transactions with a Binding Arrangement

Satisfied Over Time or at a Point in Time

IE117. Examples 20–22 illustrate the requirements in paragraphs 92–93 and 95 of IPSAS 47 on the satisfaction of compliance obligations over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 92(a) of IPSAS 47 for transactions with compliance obligations to use resources for goods or services internally on when an entity simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 20 Case A);

(b) Paragraphs 95(a) of IPSAS 47 for transactions with compliance obligations to transfer goods or services to another party on when a purchaser or third-party beneficiary simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 20 Case B, and Example 21);

(c) Paragraphs 95(c) and 96–97 of IPSAS 47 on an entity's performance that does not create an asset with an alternative use and an entity's enforceable right to receive consideration for performance completed to date (Examples 21–22); and

(d) Paragraph 97 of IPSAS 47 on compliance obligations satisfied at a point in time (Example 22).

Example 20 – Resource Provider Simultaneously Receives and Consumes the Economic Benefits or Service Potential

Case A – Satisfaction of Compliance Obligation to Use Resources for Goods or Services Internally

IE118. A regional government (the Government) enters into a binding arrangement to provide CU1.2 million to the regional hospital network (the Hospital). The Government requires the Hospital to use the CU1.2 million in the operation of its medical imaging department.

IE119. The use of funds in the medical imaging department is a single compliance obligation in accordance with paragraph 68(b) of IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 92(a) of IPSAS 47 because the Hospital simultaneously receives and consumes the economic benefits or service potential of the received resources as it is used. The Hospital recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Case B – Satisfaction of Compliance Obligation to Transfer Goods or Services to Another Party

IE120. A public payroll service center (the Payroll Center) enters into a binding arrangement to provide monthly payroll processing services to a local government's Department of Education (the Department) for one year.

IE121. The promised payroll processing services are accounted for as a single compliance obligation in accordance with paragraph 68(b) of IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 95(a) of IPSAS 47 because the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the Payroll Center has provided to date also demonstrates that the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. The Payroll Center disregards any practical limitations on transferring the remaining compliance obligation, including setup activities that would need to be undertaken by another entity. The Payroll Center recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Example 21 – Assessing Alternative Use and Right to Consideration

IE122. The Office of the Auditor General (the Auditor) enters into a binding arrangement with a government agency (the Agency) to provide financial statement audit services that result in the Auditor providing an audit opinion to the Agency. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Agency. If the Agency were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Agency to compensate the Auditor for its costs incurred.

IE123. The Auditor considers the criterion in paragraph 95(a) of IPSAS 47 to determine whether the Agency simultaneously receives and consumes the economic benefits or service potential of the Auditor's performance. If the Auditor were to be unable to satisfy its compliance obligation and the Agency hired another audit firm to provide the opinion, the other audit firm would need to substantially re-perform the work that the Auditor had completed to date, because the other audit firm would not have the economic benefits or service potential of any work in progress performed by the Auditor. The nature of the audit opinion is such that the Agency will generate economic benefits or service potential of the Auditor's performance only when the Agency receives the audit opinion. Consequently, the Auditor concludes that the criterion in paragraph 95(a) of IPSAS 47 is not met.

IE124. However, the Auditor's compliance obligation meets the criterion in paragraph 95(c) of IPSAS 47 because the audit work completed to date would not have any alternative use, as it would be specific to the audit of the Agency. Thus, the Auditor has a compliance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 96 of IPSAS 47, the development of the audit opinion does not create an asset with an alternative use to the Auditor because the audit relates to facts and circumstances that are specific to the Agency. Therefore, the Auditor cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 97 of IPSAS 47, the Auditor has an enforceable right to receive consideration for its performance completed to date for its costs.

IE125. Consequently, the Auditor recognizes revenue over time by measuring the progress towards complete satisfaction of the compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Example 22 – Assessing Whether a Compliance Obligation is Satisfied at a Point in Time or Over Time

IE126. The Department of Public Works (Public Works) is developing multi-unit residential complexes to be sold to the Department of Housing (Housing) as well as a variety of commercial entities. Housing enters into a binding arrangement with Public Works for specified units that are under construction. These units have a similar floor plan and are of a similar size, but other attributes of the units are different (for example, the location of the units within the complex).

Case A – Entity does not have an Enforceable Right to Consideration for Performance Completed to Date

IE127. Housing pays a deposit upon entering into the binding arrangement and the deposit is refundable only if Public Works fails to complete construction of the units in accordance with the binding arrangement. The remainder of the consideration is payable on completion of the binding arrangement when Housing obtains physical possession of the units. If Housing defaults on the binding arrangement before completion of the units, Public Works only has the right to retain the deposit.

IE128. At the inception of the binding arrangement, Public Works applies paragraph 95(c) of IPSAS 47 to determine whether its promise to construct and transfer the units to Housing is a compliance obligation satisfied over time. Public Works determines that it does not have an enforceable right to consideration for performance completed to date because, until construction of the units is complete, it only has a right to the deposit paid by Housing. Because Public Works does not have a right to consideration for work completed to date, its compliance obligation is not a compliance obligation satisfied over time in accordance with paragraph 95(c) of IPSAS 47. Instead, Public Works accounts for the sale of the units as compliance obligations satisfied at a point in time in accordance with paragraph 97 of IPSAS 47.

Case B – Entity has an Enforceable Right to Consideration for Performance Completed to Date

IE129. Housing pays a non-refundable deposit upon entering into the binding arrangement and will make progress payments during construction of the units. The binding arrangement has substantive terms that preclude Public Works from being able to direct the units to another purchaser. In addition, Housing does not have the right to terminate the binding arrangement unless Public Works fails to perform as promised. If Housing defaults on its obligations by failing to make the promised progress payments as and when they are due, Public Works would have a right to all of the consideration promised in the binding arrangement if it completes the construction of the units. The courts have previously upheld similar rights that entitle developers to require the purchaser to perform, subject to the entity meeting its compliance obligations under the binding arrangement.

IE130. At the inception of the binding arrangement, Public Works applies paragraph 95(c) of IPSAS 47 to determine whether its promise to construct and transfer the units to Housing is a compliance obligation satisfied over time. Public Works determines that the units it constructs do not have an alternative use to Public Works because the binding arrangement precludes Public Works from transferring the specified units to another purchaser. Public Works does not consider the possibility of a termination of a binding arrangement in assessing whether it is able to direct the units to another purchaser.

IE131. Public Works also has a right to consideration for performance completed to date in accordance with paragraphs 97(a) of IPSAS 47. This is because if Housing were to default on its obligations, Public Works would have an enforceable right to all of the consideration promised under the binding arrangement if it continues to perform as promised.

IE132. Therefore, the terms of the binding arrangement and the practices in the legal jurisdiction indicate that there is a right to consideration for performance completed to date. Consequently, the criteria in paragraph 95(c) of IPSAS 47 are met and Public Works has a compliance obligation that it satisfies over time. To recognize revenue for that compliance obligation satisfied over time, Public Works measures its progress towards complete satisfaction of its compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

IE133. In the construction of a multi-unit residential complex, Public Works may have many binding arrangements with individual purchasers for the construction of individual units within the complex. Public Works would account for each binding arrangement separately. However, depending on the nature of the construction, Public Works' performance in undertaking the initial construction work (i.e., the foundation and the basic structure), as well as the construction of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its compliance obligations in each binding arrangement.

Case C – Entity has an Enforceable Right to Consideration for Performance Completed to Date, but Binding Arrangement can be Cancelled

IE134. The same facts as in Case B apply to Case C, except that in the event of a default by Housing, either Public Works can require Housing to perform as required under the binding arrangement or Public Works can cancel the binding arrangement in exchange for the asset under construction and an entitlement to a penalty of a proportion of the agreed price in the binding arrangement.

IE135. Notwithstanding that Public Works could cancel the binding arrangement (in which case Housing's obligation to Public Works would be limited to transferring control of the partially completed units to Public Works and paying the penalty prescribed), Public Works has a right to consideration for performance completed to date because it could also choose to enforce its rights to full payment under the binding arrangement. The fact that Public Works may choose to cancel the binding arrangement in the event Housing defaults on its obligations would not affect that assessment (see paragraph AG69 of IPSAS 47), provided that Public Work's rights to require Housing to continue to perform as required under the binding arrangement (i.e., pay the promised consideration) are enforceable.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

IE136. Examples 23–24 illustrate the requirements in paragraphs 98–104 of IPSAS 47 on measuring progress towards complete satisfaction of a compliance obligation satisfied over time. Example 24 also illustrates the requirements in paragraph AG95 of IPSAS 47 on uninstalled materials when costs incurred are not proportionate to the entity's progress in satisfying a compliance obligation.

Example 23 – Measuring Progress when Making Goods or Services Available

IE137. A local government (the Government) owns and manages public swimming pools and enters into a binding arrangement with a member of the public for one year of access to any of its pools. The member of the public has unlimited use of the pools and promises to pay an access fee of CU100 per month.

IE138. The Government determines that its promise to the member of the public is to provide a service of making the pools available for the member of the public to use as and when the member of the public wishes. This is because the extent to which the member of the public uses the pools does not affect the amount of the remaining goods and services to which the member of the public is entitled. The Government concludes that the member of the public simultaneously receives and consumes the economic benefits or service potential of the local government's performance as it performs by making the pools available. Consequently, the Government's compliance obligation is satisfied over time in accordance with paragraph 92(a) of IPSAS 47.

IE139. The Government also determines that the member of the public consumes economic benefits or service potential from the Government making the pools available throughout the year. That is, the member of the public benefits from having the pools available, regardless of whether the member of the public uses it or not. Consequently, the Government concludes that the best measure of progress towards complete satisfaction of the compliance obligation over time is an output method, specifically a time-based measure, and it recognizes revenue on a straight-line basis throughout the year at CU100 per month.

Example 24 – Measuring Progress for Uninstalled Materials

IE140. In November 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a 3-storey building and install new elevators for a total consideration of CU5 million. Public Works concluded that the promised refurbishment service, including the installation of elevators, is a single compliance obligation satisfied over time. Total expected costs are CU4 million, including CU1.5 million for the elevators. Public Works determines that it acts as a principal in accordance with paragraphs AG117–AG125 of IPSAS 47, because it obtains control of the elevators before they are transferred to the other department.

IE141. A summary of the transaction consideration and expected costs is as follows:

	CU
Transaction consideration	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

IE142. Public Works uses an input method based on costs incurred to measure its progress towards complete satisfaction of the compliance obligation. Public Works assesses whether the costs incurred to procure the elevators are proportionate to the Public Work's progress in satisfying the compliance obligation, in accordance with paragraph AG95 of IPSAS 47. The other department obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (CU1.5 million) are significant relative to the total expected costs to completely satisfy the compliance obligation (CU4 million). Public Works is not involved in designing or manufacturing the elevators.

IE143. Public Works concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of its performance. Consequently, in accordance with paragraph AG95 of IPSAS 47, Public Works adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction consideration. Public Works recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e., at a zero margin).

IE144. As of December 31, 20X2, Public Works observes that:

(a) Other costs incurred (excluding elevators) are CU500,000; and

(b) Performance is 20 percent complete (i.e., CU500,000 ÷ CU2,500,000).

IE145. Consequently, at December 31, 20X2, Public Works recognizes the following:

	CU	
Revenue	2,200,000	(A)
Cost of goods sold	2,000,000	(B)
Profit	200,000	

(A) Revenue recognized is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction consideration – CU1,500,000 costs of elevators.)

(B) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

Measurement of Revenue Transactions with a Binding Arrangement

Variable Consideration

Example 25 – Estimating Variable Consideration

IE146. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Transportation (Transportation) to build a bridge. The promise to transfer the bridge is a compliance obligation that is satisfied over time. The promised consideration is CU25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 20X7 that the bridge is incomplete, the promised consideration is reduced by CU100,000. For each day before March 31, 20X7 that the bridge is complete, the promised consideration increases by CU100,000.

IE147. In addition, upon completion of the bridge, a third party will inspect the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, Public Works will be entitled to an incentive bonus of CU1.5 million.

IE148. Public Works determines that the consideration promised in the binding arrangement includes a variable amount, and estimates the amount of consideration it is entitled to in accordance with paragraphs 113–117 of IPSAS 47. In determining the transaction consideration, Public Works prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 116 of IPSAS 47:

(a) Public Works decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., CU25 million, plus or minus CU100,000 per day). This is because it is the method that Public Works expects to better predict the amount of consideration to which it will be entitled.

(b) Public Works decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU1.5 million or CU0) and it is the method that Public Works expects to better predict the amount of consideration to which it will be entitled.

IE149. Public Works considers the requirements in paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction consideration.

The Existence of a Significant Financing Component in the Binding Arrangement

IE150. Examples 26–30 illustrate the requirements in paragraphs 123–128 of IPSAS 47 on the existence of a significant financing component in the binding arrangement. In addition, the following requirements are illustrated in Example 26:

(a) Paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration; and

(b) Paragraphs AG96–AG103 of IPSAS 47 on sales with a right of return.

Example 26 – Significant Financing Component and Right of Return

IE151. A government entity (the Government) provides trains to a public sector subway operator (the Operator) for CU121 million that is payable 24 months after delivery. The Operator obtains control of the trains at the inception of the binding arrangement. The binding arrangement permits the Operator to return the trains within 90 days. The trains are new and the Government has no relevant historical evidence of returns or other available market evidence.

IE152. The cash price of the trains is CU100 million, which represents the amount that the Operator would pay upon delivery for the same trains provided under otherwise identical terms and conditions as at the inception of the binding arrangement. The Government's cost of the trains is CU80 million.

IE153. The Government does not recognize revenue when control of the product transfers to the Operator. This is because the existence of the right of return and the lack of relevant historical evidence means that the Government cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur in accordance with paragraphs 119–121 of IPSAS 47. Consequently, revenue is recognized after three months when the right of return lapses.

IE154. The binding arrangement includes a significant financing component, in accordance with paragraphs 123–125 of IPSAS 47. This is evident from the difference between the amount of promised consideration of CU121 million and the cash price of CU100 million at the date that the goods are transferred to the Operator.

IE155. The binding arrangement includes an implicit interest rate of 10 percent (i.e., the interest rate that over 24 months discounts the promised consideration of CU121 million to the cash price of CU100 million). The Government evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the Government and the Operator at the inception of the binding arrangement. The following journal entries illustrate how the Government accounts for this binding arrangement in accordance with paragraphs AG96–AG103 of IPSAS 47:

(a) When the trains are transferred to the Operator, in accordance with paragraph AG97 of IPSAS 47:

Asset for right to recover trains to be returned	CU80 million[12]	
Inventory		CU80 million

[12] This example does not consider expected costs to recover the asset.

(b) During the three-month right of return period, no interest is recognized in accordance with paragraph 128 of IPSAS 47 because no binding arrangement asset or receivable has been recognized.

(c) When the right of return lapses (the trains are not returned):

Receivable	CU100 million[13]	
Revenue		CU100 million
Cost of sales	CU80 million	
Asset for trains to be returned		CU80 million

IE156. Until the Government receives the cash payment from the Operator, interest revenue would be recognized in accordance with IPSAS 41. In determining the effective interest rate in accordance with IPSAS 41, the Government would consider the remaining terms of the binding arrangement.

Example 27 – Withheld Payments on a Long-Term Binding Arrangement is not a Significant Financing Component

IE157. The Department of Public Works (Public Works) enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by Public Works throughout the binding arrangement term of three years. The compliance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Public Works' expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by the resource provider throughout the binding arrangement and paid to Public Works only when the building is complete.

IE158. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with Public Works' performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 125(c) of IPSAS 47. The withholding of a specified percentage of each milestone payment is intended to protect the resource provider from Public Works failing to adequately complete its compliance obligations under the binding arrangement.

Example 28 – Determining the Discount Rate

IE159. The Department of Communications and Information (the Department) enters into a binding arrangement with a foreign government to provide broadband internet equipment. Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU100 million plus a five percent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU1.89 million.

Case A – Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE160. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department considers paragraph 127 of IPSAS 47 and observes that the five percent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest of five percent in the binding arrangement reflects the credit characteristics of the foreign government).

[13] The receivable recognized would be measured in accordance with IPSAS 41. This example assumes there is no material difference between the fair value of the receivable at the inception of the binding arrangement and the fair value of the receivable when it is recognized at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

IE161. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Department accounts for the receivable in accordance with IPSAS 41.

Case B – Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE162. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five percent rate of interest in the binding arrangement is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five percent does not reflect the credit characteristics of the foreign government). This suggests that the cash price is less than CU100 million.

IE163. In accordance with paragraph 127 of IPSAS 47, the Department determines the transaction consideration by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 percent interest rate that reflects the credit characteristics of the foreign government. Consequently, the Department determines that the transaction consideration is CU84.83 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Department recognizes revenue and a loan receivable for that amount. The Department accounts for the loan receivable in accordance with IPSAS 41.

Example 29 – Advance Payment and Assessment of Discount Rate

IE164. The national government will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the national government plans to sell the surplus vehicles. To achieve this objective, the national government enters into a binding arrangement with a state government to provide the surplus vehicles in two years (i.e., the compliance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU5 million in two years when the state government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The state government elects to pay CU4 million when the binding arrangement is signed.

IE165. The national government concludes that the binding arrangement contains a significant financing component because of the length of time between when the state government pays for the vehicle and when the national government transfers the vehicles to the state government, as well as the prevailing interest rates in the market.

IE166. The interest rate implicit in the transaction is 11.8 percent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the national government determines that, in accordance with paragraph 127 of IPSAS 47, the rate that should be used in adjusting the promised consideration is six percent, which is the national government's incremental borrowing rate.

IE167. The following journal entries illustrate how the national government would account for the significant financing component:

(a) Recognize a binding arrangement liability for the CU4 million payment received at inception of the binding arrangement:

Cash	CU4 million	
Binding arrangement liability		CU4 million

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the national government adjusts the promised amount of consideration (in accordance with paragraph 128 of IPSAS 47) and builds up the binding arrangement liability by recognizing interest on CU4 million at six percent for two years:

Interest expense	CU494,000[14]	
Binding arrangement liability		CU494,000

(c) Recognize revenue for the transfer of the vehicles:

Binding arrangement liability	CU4,494,000	
Revenue		CU4,494,000

Example 30 – Advance Payment

IE168. A private sector telecommunications company (the Telecom) has set up cellular phone towers on government-owned properties. Under the arrangement, access to the towers can only be made by appropriately skilled telecommunications specialists. The Telecom enters into a binding arrangement with a government entity that provides specialist telecommunications services (the Government Entity) to provide maintenance and repair services for three years. The Telecom purchases this support service at the time of setting up the cellular phone towers. Consideration for the service is CU300,000, and the Telecom must pay for it upfront (i.e., a monthly payment option is not available).

IE169. To determine whether there is a significant financing component in the binding arrangement, the Government Entity considers the nature of the service being offered and the purpose of the payment terms. The Government Entity charges a single upfront amount, not with the primary purpose of obtaining financing from purchasers but, instead, to better manage its resources, taking into consideration the risks associated with providing the service. Specifically, if the Telecom could pay monthly, it may change to another provider of the specialist service, leaving the Government Entity with costs for which it cannot earn revenue.

IE170. In assessing the requirements in paragraph 125(c) of IPSAS 47, the Government Entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the Government Entity. The Government Entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the Government Entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the Government Entity concludes that there is not a significant financing component.

Non-Cash Consideration

IE171. Example 31 illustrates the requirements in paragraphs 129–132 of IPSAS 47 on non-cash consideration, as well as the requirements in paragraph 68 of IPSAS 47 on identifying compliance obligations.

Example 31 – Entitlement to Non-Cash Consideration

IE172. A public broadcaster (the Broadcaster) enters into a binding arrangement with a private media company (the Media Company) to provide production services for one year. The binding arrangement is signed on January 1, 20X1 and work begins immediately. The Broadcaster concludes that the production services are a single compliance obligation in accordance with paragraph 68(b) of IPSAS 47. This is because the Broadcaster is providing a series of distinct production services that are substantially the same and have the same pattern of transfer (the production services transfer to the Media Company over time and use the same method to measure progress—that is, a time-based measure of progress).

[14] CU494,000 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

IE173. In exchange for the production services, the Media Company promises to provide the Broadcaster with the right to air one of the Media Company's popular sports programs once per week of production services.

IE174. The Broadcaster measures its progress towards complete satisfaction of the compliance obligation as each week of production service is complete. To determine the transaction consideration (and the amount of revenue to be recognized), the Broadcaster first considers the fair value of the right to air the popular sports program. However, as the right to air the program is not typically sold by the Media Company or traded in the market, the Broadcaster concludes that it cannot reasonably estimate the fair value of the non-cash consideration. As a result, the Broadcaster measures the transaction consideration indirectly by reference to the stand-alone value of the production services promised to the Media Company.

Allocation Based on Stand-Alone Values

IE175. Examples 32–34 illustrate the requirements in paragraphs 133–143 of IPSAS 47 on allocating the transaction consideration to compliance obligations. In addition, the following requirements are illustrated in these examples:

(a) Paragraph 116 of IPSAS 47 on variable consideration (Example 34);

(b) Paragraphs AG107–AG109 of IPSAS 47 on the allocation of a discount (Examples 32-33); and

(c) Paragraph AG182 of IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 34).

Example 32 – Allocation Methodology

IE176. A Department of Defense (the Department) enters into a binding arrangement with another country to provide a fighter jet, specialized spare parts, and a specialized engine in exchange for CU100 million. The Department will satisfy the compliance obligations for the jet, spare parts, and engine at different points in time. The Department can provide fighter jets separately and therefore the stand-alone value is directly observable. The stand-alone values of the specialized spare parts and specialized engine are not directly observable.

IE177. Because the stand-alone values for the specialized spare parts and specialized engine are not directly observable, the Department must estimate them. To estimate the stand-alone values, the Department uses the adjusted market assessment approach for the specialized spare parts and the expected cost approach for the specialized engines. In making those estimates, the Department maximizes the use of observable inputs (in accordance with paragraph 138 of IPSAS 47). The Department estimates the stand-alone values as follows:

Product	**Stand-alone value**	**Method**
	CU (millions)	
Fighter jet	90	Directly observable (see paragraph 137 of IPSAS 47)
Spare parts	10	Adjusted market assessment approach (see paragraph 139(a) of IPSAS 47)
Specialized Engine	20	Expected cost approach (see paragraph 139(b) of IPSAS 47)
Total	120	

IE178. The other country receives a discount for purchasing the bundle of goods because the sum of the stand-alone values (CU120 million) exceeds the promised consideration (CU100 million). The Department considers whether it has observable evidence about the compliance obligation to which the entire discount belongs (in accordance with paragraph AG108 of IPSAS 47) and concludes that it does not. Consequently, in accordance with paragraphs 136 and AG107 of IPSAS 47, the discount is allocated proportionately across the fighter jet, spare parts and the specialized engine. The discount, and therefore the transaction consideration, is allocated as follows:

Product	**Allocated Transaction Consideration**	
	CU (millions)	
Fighter jet	75	(CU90 ÷ CU120 × CU100)
Spare parts	8	(CU10 ÷ CU120 × CU100)
Engine	17	(CU20 ÷ CU120 × CU100)
Total	100	

Example 33 – Allocating a Discount

IE179. A government procurement agency (the Agency) regularly provides common-use supplies, including Supplies A, B and C individually, to government entities. The Agency establishes the following stand-alone values:

Product	**Stand-alone value**
	CU
Supply A	40
Supply B	55
Supply C	45
Total	140

IE180. In addition, the Agency regularly provides Supplies B and C together for CU60.

Case A – Allocating a Discount to One or More Compliance Obligations

IE181. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C in exchange for CU100. The Agency will satisfy the compliance obligations for each of the supplies at different points in time.

IE182. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three compliance obligations when allocating the transaction consideration using the relative stand-alone value method (in accordance with paragraph AG107 of IPSAS 47). However, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of IPSAS 47.

IE183. If the Agency transfers control of Supplies B and C at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single compliance obligation. That is, the

Agency could allocate CU60 of the transaction consideration to the single compliance obligation and recognize revenue of CU60 when Supplies B and C simultaneously transfer to the government entity.

IE184. If the binding arrangement requires the Agency to transfer control of Supplies B and C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to transfer Supply B (stand-alone value of CU55) and Supply C (stand-alone value of CU45) as follows:

Product	Allocated transaction consideration	
	CU	
Supply B	33	(CU55 ÷ CU100 total stand-alone value × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone value × CU60)
Total	60	

Case B – Residual Approach is Appropriate

IE185. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C as described in Case A. The binding arrangement also includes a promise to transfer Supply D. Total consideration in the binding arrangement is CU130. The stand-alone value for Supply D is highly variable (see paragraph 139(c) of IPSAS 47) because the Agency provides Supply D to different purchasers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone value of Supply D using the residual approach.

IE186. Before estimating the stand-alone value of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the other compliance obligations in the binding arrangement in accordance with paragraphs AG108–AG109 of IPSAS 47.

IE187. As in Case A, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of IPSAS 47. Using the residual approach, the Agency estimates the stand-alone value of Supply D to be CU30 as follows:

Product	Stand-alone value	Method
	CU	
Supply A	40	Directly observable (see paragraph 137 of IPSAS 47)
Supplies B and C	60	Directly observable with discount (see paragraph AG108 of IPSAS 47)
Supply D	30	Residual approach (see paragraph 139(c) of IPSAS 47)
Total	130	

IE188. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 133 of IPSAS 47 and the requirements in paragraph 138 of IPSAS 47.

Case C – Residual Approach is Inappropriate

IE189. The same facts as in Case B apply to Case C except the transaction consideration is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone value of CU5 for Supply D (CU105 transaction consideration less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration to which it expects to be entitled in exchange for satisfying its compliance obligation to transfer Supply D, because CU5 does not approximate the stand-alone value of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data, including procurement and cost recovery reports, to estimate the stand-alone value of Supply D using another suitable method. The Agency allocates the transaction consideration of CU105 to Supplies A, B, C and D using the relative stand-alone values of those products in accordance with paragraphs 133–140 of IPSAS 47.

Example 34 – Allocation of Variable Consideration

IE190. A government-owned university (the University) enters into a binding arrangement with a pharmaceutical manufacturing company (the Company) for two intellectual property licenses for two drug formulations (Formulation X and Y), developed by the University's research lab. The University determines that the formulations represent two compliance obligations each satisfied at a point in time. The stand-alone values of Formulation X and Y are CU800,000 and CU1,000,000, respectively.

Case A – Variable Consideration Allocated Entirely to One Compliance Obligation

IE191. The price stated in the binding arrangement for Formulation X is a fixed amount of CU800,000 and for Formulation Y, the consideration is three percent of the Company's future sales of the medication developed from Formulation Y. For purposes of allocation, the University estimates its sales-based royalties (i.e., the variable consideration) to be CU1,000,000, in accordance with paragraph 116 of IPSAS 47.

IE192. To allocate the transaction consideration, the University considers the criteria in paragraph 142 of IPSAS 47 and concludes that the variable consideration (i.e., the sales-based royalties) should be allocated entirely to Formulation Y. The University concludes that the criteria in paragraph 142 of IPSAS 47 are met for the following reasons:

(a) The variable payment relates specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y).

(b) Allocating the expected royalty amount of CU1,000,000 entirely to Formulation Y is consistent with the allocation objective in paragraph 133 of IPSAS 47. This is because the University's estimate of the amount of sales-based royalties (CU1,000,000) approximates the stand-alone value of Formulation Y and the fixed amount of CU800,000 approximates the stand-alone value of Formulation X. The University allocates CU800,000 to Formulation X in accordance with paragraph 143 of IPSAS 47. This is because, based on an assessment of the facts and circumstances relating to both licenses, allocating to Formulation Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 133 of IPSAS 47.

IE193. The University transfers Formulation Y at the inception of the binding arrangement and transfers Formulation X one month later. Upon the transfer of Formulation Y, the University does not recognize revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG180 of IPSAS 47, the University recognizes revenue for the sales-based royalty when those subsequent sales occur.

IE194. When Formulation X is transferred, the University recognizes as revenue the CU800,000 allocated to Formulation X.

Case B – Variable Consideration Allocated on the Basis of Stand-Alone Values

IE195. The price stated in the binding arrangement for Formulation X is a fixed amount of CU300,000 and for Formulation Y the consideration is five percent of the Company's future sales of medication developed from Formulation Y. The University's estimate of the sales-based royalties (i.e., the variable consideration) is CU1,500,000 in accordance with paragraph 116 of IPSAS 47.

IE196. To allocate the transaction consideration, the University applies the criteria in paragraph 142 of IPSAS 47 to determine whether to allocate the variable consideration (i.e., the sales-based royalties) entirely to Formulation Y. In applying the criteria, the University concludes that even though the variable payments relate specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y), allocating the variable consideration entirely to Formulation Y would be inconsistent with the principle for allocating the transaction consideration. Allocating CU300,000 to Formulation X and CU1,500,000 to Formulation Y does not reflect a reasonable allocation of the transaction consideration on the basis of the stand-alone values of Formulations X and Y of CU800,000 and CU1,000,000, respectively. Consequently, the University applies the general allocation requirements in paragraphs 136–140 of IPSAS 47.

IE197. The University allocates the transaction consideration of CU300,000 to Formulations X and Y on the basis of relative stand-alone values of CU800,000 and CU1,000,000, respectively. The University also allocates the consideration related to the sales-based royalty on a relative stand-alone value basis. However, in accordance with paragraph AG180 of IPSAS 47, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognize revenue until the later of the following events: the subsequent sales occur or the compliance obligation is satisfied (or partially satisfied).

IE198. Formulation Y is transferred to the Company at the inception of the binding arrangement and Formulation X is transferred three months later. When Formulation Y is transferred, the University recognizes as revenue the CU167,000 (CU1,000,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation Y. When Formulation X is transferred, the University recognizes as revenue the CU133,000 (CU800,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation X.

IE199. In the first month, the royalty due from the Company's first month of sales is CU200,000. Consequently, in accordance with paragraph AG180 of IPSAS 47, the University recognizes as revenue the CU111,000 (CU1,000,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation Y (which has been transferred to the purchaser and is therefore a satisfied compliance obligation). The University recognizes a binding arrangement liability for the CU89,000 (CU800,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation X. This is because, although the subsequent sale by the Company has occurred, the compliance obligation to which the royalty has been allocated is not satisfied until Formulation X is transferred three months later.

Multi-Party Arrangements and the Determination of Stand-Alone Value

IE200. Example 35 illustrates the application of paragraph AG29 of IPSAS 47 on assessing binding arrangements which include the provision of goods or services to third-party beneficiaries and paragraph AG110 of IPSAS 47 on the determination of the stand-alone value of these goods or services.

Example 35 – Provision of Vaccines to Third-Party Beneficiaries

Case A – Binding Arrangement Includes a Compliance Obligation to Transfer Goods or Services to Another Party

IE201. A health clinic (the Clinic) receives CU100,000 from the government to provide free vaccinations in the local community. The government requires the Clinic to provide 150 doses of vaccine A, which is a vaccine that the Clinic has previously provided for a stand-alone value of CU500 per dose. In addition, the Clinic is also required to provide 350 doses of vaccine B, a new vaccine with limited information regarding observable prices.

IE202. The Clinic concludes that this binding arrangement includes two compliance obligations to transfer two distinct goods to another party, specifically 150 doses of vaccine A and 350 doses of vaccine B. This is because the government, which is acting as the purchaser, is paying the Clinic to provide vaccination services to local individuals, who are third-party beneficiaries. This is consistent with the requirements in paragraph AG29 of IPSAS 47.

IE203. In determining the stand-alone value for each dose of the vaccines, the Clinic estimates that each dose of vaccine A has a stand-alone value of CU500, based on the historical stand-alone value for that vaccine. For vaccine B, the Clinic applies paragraph AG110 of IPSAS 47 and estimates that the stand-alone value of each dose is CU100, based on the expected cost approach for the Clinic to acquire each vaccination, as well as the labor costs for the administration of vaccines.

IE204. Using the stand-alone value of CU500 per dose for vaccine A and CU100 per dose for vaccine B will result in the following allocation of the transaction consideration to the two vaccines:

Total Stand-Alone Value of All Compliance Obligations:

Vaccine A: CU500 stand-alone value × 150 doses = CU75,000

Vaccine B: CU100 stand-alone value (based on replacement cost + labor) × 350 doses = CU35,000

Total Stand-Alone Value: CU75,000 + CU35,000 = CU110,000

Allocation of Transaction Consideration of CU100,000 to the Two Vaccines:

Vaccine A: CU100,000 × CU75,000 ÷ CU110,000 = CU68,182 or CU454.55 per dose

Vaccine B: CU100,000 × CU35,000 ÷ CU110,000 = CU31,818 or CU90.91 per dose

IE205. Based on the above, the Clinic would recognize revenue using the above allocated transaction consideration and measure its progress in satisfying its compliance obligations based on the number of vaccines A or B administered.

Case B – Binding Arrangement Includes a Compliance Obligation to Use Resources for Goods or Services Internally

IE206. Similar to Case A, the Clinic receives CU100,000 from the government. However, in this case, the funding was provided to the Clinic for the purposes of running their vaccination program in the local community. The terms of the binding arrangement specify that the Clinic has discretion to spend the funds on expenditures that are directly related to the vaccination program and may include: an allocation of salaries paid to staff who work on vaccination-related activities such as the administration of the vaccines or the development of educational materials regarding vaccines; an allocation of rent for premises used to conduct these vaccination-related activities; and the acquisition cost of vaccinations themselves.

IE207. The Clinic considers the terms and conditions of the binding arrangement and concludes that while the arrangement includes third-party beneficiaries in accordance with AG29 of IPSAS 47, its compliance obligation is to use resources internally for goods or services to run its vaccination program. This is because the binding arrangement does not specify that the CU100,000 is restricted to fund the provision of vaccines to local individuals (i.e., third-party beneficiaries). Based on its assessment, the Clinic concludes that the compliance obligation is satisfied over time as eligible expenditures are incurred because this measure of progress best depicts the entity's performance to satisfy this compliance obligation. The Clinic recognizes revenue as eligible expenditures are incurred.

Principal versus Agent Considerations

IE208. Examples 36–38 illustrate the requirements in paragraphs AG117–AG125 of IPSAS 47 on principal versus agent considerations.

Example 36 – Promise to Provide Goods or Services (Entity is a Principal)

IE209. A shared maintenance services agency (the Agency) enters into a binding arrangement with the Department of Social Welfare (the Department) to provide office maintenance services on the Department's properties. The Agency and the Department define and agree on the scope of the maintenance services and negotiate the price. The Agency is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. The Agency invoices the Department for the agreed-upon price on a monthly basis with 10-day payment terms.

IE210. The Agency regularly engages third-party service providers to provide maintenance services to its purchasers. When the Agency obtains a binding arrangement from a purchaser, the Agency enters into a binding arrangement with one of those service providers, directing the service provider to perform office maintenance services for the Department. The payment terms in the binding arrangements with the service providers are generally aligned with the payment terms in the Agency's binding arrangements with purchasers. However, the Agency is obligated to pay the service provider even if the Department fails to pay.

IE211. To determine whether the Agency is a principal or an agent, the Agency identifies the specified good or service to be provided to the Department and assesses whether it controls that good or service before the good or service is transferred to the Department.

IE212. The Agency observes that the specified services to be provided to the Department are the office maintenance services for which the Department entered into a binding arrangement, and that no other goods or services are promised to the Department. While the Agency obtains a right to office maintenance services from the service provider after entering into the binding arrangement with the Department, that right is not transferred to the Department. That is, the Agency retains the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, that right. For example, the Agency can decide whether to direct the service provider to provide the office maintenance services for the Department, or for another purchaser, or at its own facilities. The Department does not have a right to direct the service provider to perform services that the Agency has not agreed to provide. Therefore, the right to office maintenance services obtained by the Agency from the service provider is not the specified good or service in its binding arrangement with the Department.

IE213. The Agency concludes that it controls the specified services before they are provided to the Department. The Agency obtains control of a right to office maintenance services after entering into the binding arrangement with the Department but before those services are provided to the Department. The terms of the Agency's binding arrangement with the service provider give the Agency the ability to direct the service provider to provide the specified services on the Agency's behalf (see paragraph AG120(b)). In addition, the Agency concludes that the following indicators in paragraph AG123 of IPSAS 47 provide further evidence that the Agency controls the office maintenance services before they are provided to the Department:

(a) The Agency is primarily responsible for satisfying the promise to provide office maintenance services. Although the Agency has hired a service provider to perform the services promised to the Department, it is the Agency itself that is responsible for ensuring that the services are performed and are acceptable to the Department (i.e., the Agency is responsible for satisfying the promise in the binding arrangement, regardless of whether the Agency performs the services itself or engages a third-party service provider to perform the services).

(b) The Agency has discretion in setting the price for the services to the Department.

IE214. The Agency observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangement with the Department. Thus, the Agency has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the Agency concludes that it controls the office maintenance services before they are provided to the Department on the basis of the evidence in paragraph IE213.

IE215. Thus, the Agency is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from the Department in exchange for the office maintenance services.

Example 37 – Promise to Provide Goods or Services (Entity is a Principal)

IE216. A local government negotiates with hospitals to purchase vaccines for individual citizens in the jurisdiction at reduced rates compared with the price of vaccines provided directly by the hospitals to the individual citizens. The local government agrees to buy a specific number of vaccines and must pay for those vaccines regardless of whether it is able to use them. The reduced rate paid by the local government for each vaccine purchased is negotiated and agreed in advance.

IE217. The local government determines the prices at which the vaccines will be provided to the individual citizens. The local government provides the vaccines and collects the consideration from citizens when the vaccines are purchased.

IE218. The local government also assists the individual citizens in resolving complaints with the service provided by the hospitals. However, each hospital is responsible for satisfying obligations associated with the vaccines, including remedies to a citizen for dissatisfaction with the service.

IE219. To determine whether the local government's compliance obligation is to provide the specified goods or services itself (i.e., the local government is a principal) or to arrange for those goods or services to be provided by another party (i.e., the local government is an agent), the local government identifies the specified good or service to be provided to the individual citizens and assesses whether it controls that good or service before the good or service is transferred to the citizens.

IE220. The local government concludes that, with each vaccine that it commits itself to purchase from the hospitals, it obtains control of a right to the vaccine that the local government then transfers to an individual citizen, who in turn is one of the local government's purchasers (see paragraph AG120(a)). Consequently, the local government determines that the specified good or service to be provided to the individual citizen is that right to a unit of the vaccine that the local government controls. The local government observes that no other goods or services are promised in this arrangement to the individual citizens.

IE221. The local government controls the right to each unit of vaccine before it transfers that specified right to one of its citizens because the local government has the ability to direct the use of that right by deciding whether to use the vaccine to fulfill a binding arrangement with a citizen and, if so, which binding arrangement it will fulfill. The local government also has the ability to obtain the remaining benefits or service potential from that right by either reselling the vaccine and obtaining all of the proceeds from the sale or, alternatively, providing the vaccine to another individual.

IE222. The indicators in paragraphs AG123(b)–AG123(c) of IPSAS 47 also provide relevant evidence that the local government controls each specified right (to the vaccine) before it is transferred to the citizen. The local government has inventory risk with respect to the vaccine because the local government committed itself to obtaining the vaccine from the hospital before entering into a binding arrangement with a citizen to purchase the vaccine. This is because the local government is obligated to pay the hospital for that right regardless of whether it is able to obtain a purchaser to redirect the vaccine to or whether it can obtain a favorable price for the vaccine. The local government also establishes the price that the individual citizen will pay for the specified vaccine.

IE223. Thus, the local government concludes that it is a principal in the transactions with the individual citizens. The local government recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the vaccines transferred to the citizens.

Example 38 – Arranging for the Provision of Goods or Services (Entity is an Agent)

IE224. The Department of Health (the Department) provides vouchers that entitle qualifying individuals (the patients) to subsidized vaccination services at specified clinics. The sales price of the voucher provides the patient with a significant discount (i.e., a subsidy) when compared with the normal prices of the vaccination services (for example, a patient pays CU10 for a voucher that entitles the patient to a vaccine at a clinic that would otherwise cost CU20). The Department does not purchase or commit itself to purchasing vouchers in advance of the sale of a voucher to a patient; instead, it purchases vouchers only as they are requested by the patients. The Department provides the vouchers through its website and the vouchers are non-refundable.

IE225. The Department and the clinics jointly determine the prices at which the vouchers will be provided to patients. Under the terms of its binding arrangements with the clinics, the Department is entitled to 30 percent of the voucher price when it provides the voucher.

IE226. The Department also assists the patients in resolving complaints about the vaccination services and has a patient satisfaction program. However, the clinics are responsible for satisfying obligations associated with the voucher, including remedies to a patient for dissatisfaction with the vaccination.

IE227. To determine whether the Department is a principal or an agent, the Department identifies the specified good or service to be provided to the patient and assesses whether it controls the specified good or service before that good or service is transferred to the patient.

IE228. A patient obtains a voucher for the clinic that it selects. The Department does not engage the clinics to provide vaccinations to patients on the Department's behalf as described in the indicator in paragraph AG123(a) of IPSAS 47. Therefore, the Department observes that the specified service to be provided to the patient is the right to a vaccination (in the form of a voucher) at a specified clinic or clinics, which the patient purchases and then can use itself or transfer to another person. The Department also observes that no other goods or services (other than the vouchers) are promised to the patients.

IE229. The Department concludes that it does not control the voucher (right to a vaccination) at any time. In reaching this conclusion, the Department principally considers the following:

(a) The vouchers are created only at the time that they are transferred to the patients and, thus, do not exist before that transfer. Therefore, the Department does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining economic benefits or service potential from the vouchers, before they are transferred to patients.

(b) The Department neither purchases, nor commits itself to purchase, vouchers before they are provided to patients. The Department also has no responsibility to accept any returned vouchers. Therefore, the Department does not have inventory risk with respect to the vouchers as described in the indicator in paragraph AG123(b) of IPSAS 47.

IE230. Thus, the Department concludes that it is an agent with respect to the vouchers. The Department recognizes revenue in the net amount of consideration to which the Department will be entitled in exchange for arranging for the clinics to provide vouchers to patients for the clinics' vaccination services, which is the 30 percent fee it is entitled to upon the sale of each voucher.

Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

IE231. Example 39 illustrates the requirements in paragraphs AG135–AG138 of IPSAS 47 on non-refundable upfront fees for a transfer of goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary).

Example 39 – Non-refundable Upfront Fee

IE232. A public swimming pool (the Pool) enters into a binding arrangement with an individual to provide one year of access to the pools. The Pool's binding arrangements have standard terms that are the same for all individuals. The binding arrangement requires the individual to pay an upfront administration fee to set up the individual on the Pool's systems. The fee is a nominal amount and is non-refundable. The individual can renew the binding arrangement each year without paying an additional fee.

IE233. The Pool's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a separate compliance obligation.

IE234. The Pool concludes that the renewal option does not provide a material right to the individual that it would not receive without entering into that binding arrangement (see paragraph AG127 of IPSAS 47). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Pool determines the transaction consideration, which includes the non-refundable upfront fee, and recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph AG136 of IPSAS 47.

Other Assets from Revenue Transactions with Binding Arrangement Costs

IE235. Example 40 illustrates the requirements in paragraphs 152–155 of IPSAS 47 on costs to fulfill a binding arrangement and paragraphs 156–161 of IPSAS 47 on amortization and impairment of binding arrangement costs.

Example 40 – Costs that Give Rise to an Asset

IE236. A shared services agency (the Agency) enters into a binding arrangement for a service to manage a local government's information technology data center for five years. The binding arrangement is renewable for subsequent one-year periods. The average term is seven years. Before providing the services, the Agency designs and builds a technology platform for the Agency's internal use that interfaces with the local government's systems. That platform is not transferred to the local government but will be used to deliver services to the local government.

IE237. The initial costs incurred to set up the technology platform are as follows:

	CU
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	350,000

IE238. The initial setup costs relate primarily to activities to fulfill the binding arrangement but do not transfer goods or services to the local government. The Agency accounts for the initial setup costs as follows:

(a) Hardware costs—accounted for in accordance with IPSAS 45.

(b) Software costs—accounted for in accordance with IPSAS 31.

(c) Costs of the design, migration and testing of the data center—assessed in accordance with paragraph 152 of IPSAS 47 to determine whether an asset can be recognized for the costs to fulfill the binding arrangement. Any resulting asset would be amortized on a systematic basis over the seven-year period (i.e., the five-year term of the binding arrangement and two anticipated one-year renewal periods) that the Agency expects to provide services related to the data center.

IE239. In addition to the initial costs to set up the technology platform, the Agency also assigns two employees who are primarily responsible for providing the service to the local government. Although the costs for these two employees are incurred as part of providing the service to the local government, the Agency concludes that the costs do not generate or enhance resources of the Agency (see paragraph 152(b) of IPSAS 47). Therefore, the costs do not meet the criteria in paragraph 152 of IPSAS 47 and cannot be recognized as an asset using IPSAS 47. In accordance with paragraph 155, the Agency recognizes the payroll expense for these two employees when incurred.

Presentation

Display

IE240. Examples 41–43 illustrate the requirements in paragraphs 162–166 of IPSAS 47 on the presentation of binding arrangement balances, and the consequences of applying paragraphs 119–121 on constraining estimates of variable consideration, paragraphs 123–128 on significant financing components, and AG96–AG103 on the sale of a right of return.

Example 41 – Binding Arrangement Liability and Receivable

Case A – Cancellable Binding Arrangement

IE241. On January 1, 20X9, a government procurement agency (the Agency) enters into a binding arrangement that is cancellable to transfer a product to another government entity on March 31, 20X9. The binding arrangement requires the government entity to pay consideration of CU1,000 in advance on January 31, 20X9. The government entity pays the consideration on March 1, 20X9. The Agency transfers the product on March 31, 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The Agency receives cash of CU1,000 on March 1, 20X9 (cash is received in advance of performance):

Cash	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency satisfies the compliance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

Case B – Non-Cancellable Binding Arrangement

IE242. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable and the advance transfer on January 31, 20X9 is required regardless of whether the Agency has started to satisfy its compliance obligation. The following journal entries illustrate how the entity accounts for the binding arrangement:

(a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a receivable because it has an unconditional and enforceable right to consideration):

Receivable	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency receives the cash on March 1, 20X9:

Cash	CU1,000	
Receivable		CU1,000

(c) The Agency satisfies the compliance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

IE243. If the Agency issued the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the Receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because the Agency does not yet have a right to consideration that is unconditional.

Example 42 – Binding Arrangement Asset Recognized for the Entity's Performance

IE244. On January 1, 20X8, a government shared services IT agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a small government department (the Department) in exchange for CU1,000,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000,000 is due only after the Agency has transferred both the software and configuration services to the Department. Consequently, the Agency does not have a right to consideration that is unconditional (a receivable) until the software is transferred to the Department and configured.

IE245. The Agency identifies the promises to transfer the software and complete the configuration as separate compliance obligations and allocates CU400,000 to the compliance obligation to transfer the software and CU600,000 to the compliance obligation to complete the configuration on the basis of their relative stand-alone values. The Agency recognizes revenue for each respective compliance obligation when control of the product transfers to the Department.

IE246. The Agency satisfies the compliance obligation to transfer the software:

Binding Arrangement Asset	CU400,000	
Revenue		CU400,000

IE247. The Agency satisfies the compliance obligation to configure the software and to recognize the unconditional right to consideration:

Receivable	CU1,000,000	
Binding Arrangement Asset		CU400,000
Revenue		CU600,000

Example 43 – Receivable Recognized for the Entity's Performance

IE248. A government hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on January 1, 20X9 to perform medical examinations for inmates for CU150 per examination. If Correctional Services requires more than 10,000 examinations to be performed in a calendar year, the binding arrangement indicates that the price per examination is retrospectively reduced to CU125 per product.

IE249. Consideration is due when the examinations are performed. Therefore, the Hospital has an unconditional right to consideration (i.e., a receivable) for CU150 per examination until the retrospective price reduction applies (i.e., after 10,000 examinations are completed).

IE250. In determining the transaction consideration, the Hospital concludes at the inception of the binding arrangement that Correctional Services will meet the 10,000-examination threshold and therefore estimates that the transaction consideration is CU125 per product. Consequently, upon the completion of the first 100 examinations for Correctional Services, the Hospital recognizes the following:

Receivable	CU15,000[15]	
Revenue		CU12,500[16]
Refund Liability (Binding Arrangement Liability)		CU2,500

IE251. The refund liability (see paragraph 118 of IPSAS 47) represents a refund of CU25 per examination, which is expected to be provided to Correctional Services for the volume-based rebate (i.e., the difference between the CU150 price stated in the binding arrangement that the Hospital has an unconditional right to receive and the CU125 estimated transaction consideration).

Disclosure

IE252. Examples 44–50 illustrate the requirements in paragraphs 167–193 of IPSAS 47 on disclosures. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 175–176 of IPSAS 47 on services in-kind (Examples 44–45);

(b) Paragraphs 179–180 of IPSAS 47 on the disaggregation of revenue disclosure (Example 47);

(c) Paragraphs 185–187 of IPSAS 47 for the disclosure of transaction consideration allocated to the remaining compliance obligations (Examples 48–49);

(d) Paragraph 120 of IPSAS 47 on constraining estimates of variable consideration (Example 48);

(e) Paragraph AG90 of IPSAS 47 on methods for measuring progress towards complete satisfaction of a compliance obligation (Example 48); and

(f) Paragraph 171 of IPSAS 47 for situations where an entity was compelled by legislation or other governmental policy decisions to enter into a binding arrangement with compliance obligations regardless of the purchaser's ability to pay for the goods or services (Example 50).

Example 44 – Disclosure of Services In-kind not Recognized

IE253. A public hospital's 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.

IE254. 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 and 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. In accordance with

[15] CU150 per examinations × 100 examinations

[16] CU125 transaction consideration per examinations × 100 examinations

paragraphs 175–176 of IPSAS 47, the hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 45 – Disclosures Made in the Financial Statements of Government A

IE255. 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 Transactions without Binding Arrangements		
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		
Transfers Receivable from Other Governments (note 7)	X	X
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 Transactions without Binding Arrangements

1. Assets and revenue arising from taxation transactions are recognized as revenue from transactions without binding arrangements in accordance with the requirements in paragraphs 18–55 of IPSAS 47. However, the Government takes advantage of the transitional provisions in IPSAS 33 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 rights in a transfer arrangement are enforceable, 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 an enforceable obligation that, if unsatisfied, requires the return of the transferred resources, the Government recognizes a liability until the requirements are satisfied.

Basis of Measurement of Major Classes of Revenue 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 accrual 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 accrual 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 transaction consideration of assets accruing to the Government during the reporting period, principally cash and 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. An estate tax of 40 percent 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 transaction consideration as at the acquisition date 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 transaction consideration 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 transaction consideration, which is determined by reference to observable market data or by independent appraisal by a member of the valuation profession. Receivables are recognized when the entity has an enforceable right in a transfer arrangement 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 33, 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 accrual basis using the model for the reporting period ending December 31, 20X4.

9. In respect of estate taxes, due to current high levels of non-compliance 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 build 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 Enforceable Obligations

11. Land with a fair value of CUXX,000 was received as part of a binding arrangement in 20X2. The binding arrangement included a compliance obligation which requires the entity to use the land for public health purposes and cannot be sold for 50 years.

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. The painting was received as part of an arrangement that included an enforceable obligation (but did not include an enforceable right). Under the agreement, the entity cannot sell the painting 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 as 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 the condition that it will 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 market 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.

Example 46 – Disclosure of a Transfer Subject to Appropriations

IE256. The facts are the same as in Case A of Example 7. The local government does not recognize an asset for the CU5 million to be transferred in 20X3 as at December 31, 20X2. Rather, the local government considers whether it should disclose a contingent asset, in accordance with paragraph 105 of IPSAS 19.

IE257. The local government concludes that the inflow of economic benefits is probable because the first payment of CU10 million was received in 20X2. Consequentially, the local government makes the following disclosure in its financial statements for the reporting period ended December 31, 20X2:

On March 15, 20X2, the local government entered into a binding arrangement with the national government to receive CU15 million in total (CU10 million in 20X2 and CU5 million in 20X3). The binding arrangement requires the funds to be used to reduce air pollution. The binding arrangement made it clear that the transfer was subject to the completion of the appropriation process, and that approval was not certain and that funding could be reduced. The local government has not recognized an asset in respect of the CU5 million to be received in 20X3 because, as at December 31, 20X2, the appropriation process for this amount had not been completed and therefore the local government does not have an enforceable right to the funds.

Example 47 – Disaggregation of Revenue—Quantitative Disclosure

IE258. A State Government reports the following segments: emergency services, public transit and energy, in accordance with IPSAS 18, *Segment Reporting*. When the State Government prepares its stakeholder presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (i.e., goods or services transferred at a point in time or services transferred over time).

IE259. The State Government determines that the categories used in the stakeholder presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 179 of IPSAS 47, which is to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The following table illustrates the disaggregation disclosure by primary geographical market, major product or service line and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the emergency services, public transit and energy segments, in accordance with paragraph 180 of IPSAS 47.

Segments	**Emergency Services**	**Public Transit**	**Energy**	**Total**
	CU (million)	**CU (million)**	**CU (million)**	**CU (million)**
Primary geographical markets				
Region A	990	2,250	4,000	7,240
Region B	300	1,010	1,000	2,310
Region C	700	–	1,250	1,950
	1,990	3,260	6,250	11,500
Major goods/service lines				
Healthcare services – clinic	600	–	–	600
Healthcare services – hospital	990	–	–	990
Medical supplies	400	–	–	400
Public transit – bus	–	500	–	500
Public transit – rail	–	2,760	–	2,760
Solar panels	–	–	1,000	1,000
Power plant	–	–	5,250	5,250
	1,990	3,260	6,250	11,500
Timing of revenue recognition				
Goods transferred at a point in time	1,000	3,260	–	4,260
Services transferred over time	990	–	6,250	7,240
	1,990	3,260	6,250	11,500

Example 48 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligations

IE260. On June 30, 20X7, a centralized training agency (the Agency) enters into three binding arrangements (Binding Arrangements A, B and C) with a government department (the Department) to provide training services. Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 185–187 of IPSAS 47 in determining the information in each binding arrangement to be included in the disclosure of the transaction consideration allocated to the remaining compliance obligations at December 31, 20X7.

Binding Arrangement A

IE261. Training services are to be provided over the next two years, typically at least once per month. For services provided, the Department pays an hourly rate of CU25.

IE262. Because the Agency bills a fixed amount for each hour of service provided, the Agency has a right to invoice the resource provider in the amount that corresponds directly with the value of the Agency's performance completed to date in accordance with paragraph AG90 of IPSAS 47. Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph 186(b) of IPSAS 47.

Binding Arrangement B

IE263. Training and onboarding services are to be provided as and when needed with a maximum of four visits per month over the next two years. The Department pays a fixed price of CU400 per month for both services. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE264. The Agency discloses the amount of the transaction consideration that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8	**20X9**	**Total**
	CU	**CU**	**CU**
Revenue expected to be recognized on this binding arrangement as of December 31, 20X7	4,800[17]	2,400[18]	7,200

Binding Arrangement C

IE265. Training services are to be provided as and when needed over the next two years. The Department pays a fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of the Department's employees (i.e., a performance bonus). The Agency estimates that it will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in paragraph 120 of IPSAS 47, the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE266. The Agency discloses the amount of the transaction consideration that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The Agency also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

[17] CU4,800 = CU400 × 12 months.

[18] CU2,400 = CU400 × 6 months

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognized on this binding arrangement as of December 31, 20X7	1,575[19]	788[20]	2,363

IE267. In addition, in accordance with paragraph 187 of IPSAS 47, the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction consideration. That part of the performance bonus was excluded from the transaction consideration in accordance with the requirements for constraining estimates of variable consideration in paragraphs 119–121.

Example 49 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligation—Qualitative Disclosure

IE268. On January 1, 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a building for a fixed consideration of CU10 million. The refurbishment of the building is considered a single compliance obligation that Public Works satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of revenue. Public Works estimates that the refurbishment will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE269. At December 31, 20X2, Public Works discloses the amount of the transaction consideration that has not yet been recognized as revenue in its disclosure of the transaction consideration allocated to the remaining unsatisfied portion of the compliance obligation. Public Works also discloses an explanation of when it expects to recognize that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining compliance obligation or by providing a qualitative explanation. Because Public Works is uncertain about the timing of revenue recognition, Public Works discloses this information qualitatively as follows, in accordance with paragraph 185 of IPSAS 47:

As of December 31, 20X2, the aggregate amount of the transaction consideration allocated to the remaining compliance obligation is CU6.8 million and the entity will recognize this revenue as the building is completed, which is expected to occur over the next 12–18 months.

Example 50 – Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions

IE270. A government-owned utility operates a number of power plants and provides electricity to residential households. The energy sector in the jurisdiction is highly regulated, and under its Power and Energy Act, all utility companies which provide electricity to residential households are required to provide electricity regardless of the households' ability to pay. Typically, a household would apply to the utility to connect electricity to their location. As part of the connection process, the household would enter into a power purchase agreement with the utility to document the payment terms and any economic consequences of non-payment, such as interest or penalties.

[19] Transaction consideration = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

[20] CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

IE271. The power purchase agreement is considered a binding arrangement with compliance obligations, as the utility has agreed to provide a distinct good (electricity) to a purchaser (the household) in exchange for the consideration. Given the regulations, the utility may not deny the initial connection nor suspend the provision of electricity even if a household is in default – i.e., the utility is compelled to satisfy the compliance obligation to provide electricity regardless of a household's ability to pay.

IE272. During the year, the utility provided electricity that would have resulted in total revenue of CU100 million if revenue had been recognized at the utility's standard rates for 100 percent of the electricity provided. However, throughout the year, a number of households were unable to pay their amounts owed to the utility in full.

IE273. The utility applies paragraph AG37 of IPSAS 47, and based on historical data, estimates that only CU90 million of the amount is collectible. For the remaining CU10 million, the utility accepts that it has implicitly provided a price concession of CU10 million due to the regulations compelling the utility to continue to provide electricity. As a result, the utility recognizes revenue based on a transaction consideration of CU90 million. (See Example 11 for more guidance on implicit price concessions.)

IE274. To comply with the disclosure requirements in paragraph 171 of IPSAS 47, the utility discloses the following information in the notes to its annual financial statements:

The utility is subject to the provisions of the Power and Energy Act, which requires all utilities to provide electricity to residential households regardless of the purchasers' ability to pay. As a result, the utility is compelled to connect all residential purchasers to its power grid and to continue to provide electricity even in the event of non-payment.

During the year, the utility provided and billed CU100 million of electricity to the households, but only recognized revenue of CU90 million, as this was the amount expected to be collected based on historical data. Therefore, CU10 million of the amount billed was not recognized as revenue.

Application of Principles to Specific Transactions

Capital Transfers

IE275. Example 51 illustrates the application of paragraphs AG140–AG142 of IPSAS 47 on capital transfers. Example 52 illustrates the initial measurement of a transfer of a physical asset.

Example 51 – Capital Transfers

Case A – Transfer Only Relates to the Construction of an Asset

IE276. Entity R enters into a binding arrangement with Entity P. The terms of the binding arrangement are as follows:

(a) Entity R is to receive a capital transfer of CU22 million in cash from Entity P, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;

(b) This amount is based on budgeted construction and related costs. The funding is to be fully paid to Entity R at the beginning of the construction period;

(c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:

   (i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.) along with the budgeted costs of these activities;

   (ii) Provide detailed progress reports at each significant stage of construction; and

(d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress, but any funds that have not been spent on construction are to be returned to Entity P.

IE277. Entity R has determined that the binding arrangement has only one compliance obligation and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete satisfaction of the compliance obligation.

IE278. In this example, the substance of the binding arrangement is to receive funding for the construction of the building, and there was no transfer relating to the subsequent use of the building by Entity R. Therefore, upon receipt of the CU22 million, Entity R recognizes cash and liability for the full amount of CU22 million because it has not yet started satisfying its compliance obligation (i.e., construction of the building) and is required to return any funds not spent on construction.

IE279. As Entity R completes the construction activities in its construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity R applies this percentage to the CU22 million to determine the amount of deferred revenue that should be derecognized from liabilities and recognized as earned revenue throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

IE280. Building on Case A, the binding arrangement now states that:

(a) The funding amount has been increased to CU32 million. The amount is based on budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE281. In this scenario, Entity R considers the substance of the transaction in accordance with the terms of the binding arrangement and concludes that the binding arrangement consists of two compliance obligations: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from IPSAS 47, Entity R has allocated CU22 million to the construction of the building and CU10 million to its operation as a public library.

IE282. For the compliance obligation relating to the construction of the building, as in Case A, Entity R recognizes a liability of CU22 million upon receipt of the funds. Entity R then derecognizes the CU22 million liability (and recognizes the amounts as earned revenue) over the construction period based on its construction progress as determined by the direct construction costs incurred.

IE283. For the compliance obligation relating to the operation of the building as a library, Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library during the 10-year period, and therefore would recognize a CU10 million liability upon initial receipt of the funds. After construction has been completed, Entity R derecognizes CU1 million liability per year as it operates the building as a public library and recognizes the amount as earned revenue.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

IE284. In this scenario, the binding arrangement includes all of the terms from Case B, with the addition of the following:

(a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty of CU5 million to Entity P.

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the construction or operation of the asset. For clarity, if Entity R has completed construction of the building and operated it as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of unearned revenue related to the operating subsidy and the CU5 million penalty) to Entity P.

IE285. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, the CU32 million will be recognized as a liability upon receipt. Subsequently, the CU22 million liability will be derecognized and recognized as earned revenue as the building is constructed, and the CU10 million liability will be derecognized and recognized as earned revenue over the 10-year operating period.

IE286. The additional CU5 million penalty is not recognized by Entity R because it is a contingent liability (as defined in IPSAS 19) that is not a present obligation (as described in Chapter 5, *Elements in Financial Statements* of the *Conceptual Framework*). This penalty only becomes a present obligation once the past event (breaching the terms of the agreement by not operating the building as a library) has occurred. Entity R will need to consider if disclosure of the contingent liability is required by IPSAS 19.

Case D – Transfer Only Relates to the Operation of an Asset

IE287. The following scenario is independent from Cases A-C, and illustrates the accounting for revenue from an operating transfer to highlight the differences with accounting for revenue from capital transfers.

IE288. In this scenario:

(a) Entity R already owns the building;

(b) The binding arrangement includes the terms relating to a CU10 million transfer to subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE289. In this scenario, the CU10 million transfer only relates to the compliance obligation to operate the existing building as a public library over a 10-year period. Upon initial receipt, Entity R recognizes the CU10 million as a liability.

IE290. Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library throughout the 10-year period. Therefore, Entity R derecognizes the liability and recognizes earned revenue of CU1 million per year as it operates the building as a public library.

Example 52 – Transfers of Physical Assets

IE291. A public health network (Public Health) enters into a binding arrangement on January 1, 20X2 with the regional government (Government) and agrees to the following:

(a) The Government will transfer ownership of an X-ray machine to Public Health upon finalization of the binding arrangement;

(b) Public Health will use the machine to provide X-ray imaging services to the citizens in the region for 10 years. After this 10-year period, Public Health retains ownership of the machine;

(c) If Public Health stops using the machine to provide imaging services during the 10-year period, it is required to return the machine to the Government; and

(d) At the time of transfer, the remaining useful life of the machine is 15 years.

IE292. In this scenario, the transaction constitutes a transfer as defined in paragraph 4 of IPSAS 47, but is not a capital transfer as Public Health is not required to use the physical asset received to acquire or construct a non-financial asset.

IE293. Upon transfer of the X-ray machine, Public Health applies paragraph 129 of the IPSAS 47 and recognizes and measures the asset at its deemed cost at the acquisition date in accordance with IPSAS 45. The entity also recognizes an equivalent liability, which is derecognized (and earned revenue is recognized) over the 10 years as the compliance obligation is satisfied over time. Public Health would also amortize the X-ray machine over its remaining useful life of 15 years in accordance with IPSAS 45.

Pledges

Example 53 – Television Appeal for Public Hospital

IE294. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (the Hospital). The annual reporting date of the 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.

IE295. The Hospital does not recognize any amount in its general purpose financial statements in respect of the pledges. The Hospital does not control the resources related to the pledge, because it does not have the ability to exclude or regulate the access of others 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 in accordance with paragraph AG150 of IPSAS 47.

Concessionary Loans

Example 54 – Concessionary Loans

IE296. An Entity receives CU6 million funding from a multi-lateral development agency (Agency) to build 10 schools over the next 5 years. The funding is provided on the following conditions:

(a) CU1 million of the funding need not be repaid, provided that the schools are built;

(b) CU5 million of the funding is to be repaid as follows:

Year	Capital to be repaid

1	0%
2	10%
3	20%
4	30%
5	40%

(c) Interest is charged at five percent 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 percent;

(d) 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); and

(e) The Entity built the following schools over the period of the loan;

Year	Status
1	1 school completed
2	3 schools completed
3	5 schools completed
4	10 schools completed

IE297. The Entity determined that the substance of the CU1 million is revenue, and not a contribution from owners. In substance, the Entity has received a concessionary loan which includes a transfer of CU1 million and a loan of CU5 million, and an additional transfer 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 percent).

IE298. Considering paragraphs AG152–AG153 of IPSAS 47, the Entity accounts for the transfer of CU1 million + CU784,550 in accordance with this Standard, and the loan with its related contractual interest and capital payments in accordance with IPSAS 41.

IE299. The journal entries are illustrated below:

1. On initial recognition, the resource recipient will recognize the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the resource recipient will recognize the following:				
Dr		Liability	CU178,455	
	Cr	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 resource recipient will recognize the following (assuming that the resource recipient subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(3/10 schools built x CU1,784,550 – CU178,455 already recognized)				

4. Year 3: the resource recipient will recognize the following:				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(5/10 schools built x CU1,784,550 – CU535,365 already recognized)				

5. Year 4: the resource recipient will recognize the following:				
Dr		Liability	CU892,275	
	Cr	Revenue		CU892,275
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the resource recipient would recognize the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Revenue		CU1,784,550

Debt Forgiveness

Example 55 – Debt Forgiveness

IE300. The national government (Government N) entered into a binding arrangement to lend a local government (Government L) CU20 million to enable Government L to build a water treatment plant. After a change in policy, Government N decides to forgive the loan and advises the local government in writing. It also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE301. Upon receipt of this letter and documentation from Government N, Government L derecognizes the liability for the loan and recognizes revenue in the statement of financial performance in the reporting period in which the liability is derecognized in accordance with paragraphs AG155–AG158 of IPSAS 47.

Bequests

Example 56 – Proposed Bequest

IE302. A 25-year-old recent graduate (the Graduate) of a public university names the public university (the University) 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.

IE303. The University does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made, in accordance with paragraphs AG161–AG163 of IPSAS 47. The past event for a bequest is the death of the testator (i.e., the Graduate), which has not occurred.

Gifts and Donations, including Goods In-kind

Example 57 – Goods In-kind

IE304. A Defense Force Agency of Government A (Defense Agency) agrees to provide an Aid Agency of Government B (Aid Agency) with its obsolete canvas tents for use as emergency relief housing after a natural disaster. Defense Agency purchased the tents for CU100 per unit two years prior to transferring them to Aid Agency. The agreement states that the tents are valued at CU100 per unit.

IE305. Aid Agency concludes that it has received a donation in the form of goods in-kind and applies paragraphs AG164–AG167 of IPSAS 47. Upon receipt, Aid Agency determines that IPSAS 45 is the relevant IPSAS, and the tents are held for operational capacity. Aid Agency determines that the current operational value for this obsolete version of the tent is CU50. Therefore, Aid Agency recognizes revenue at the value of CU50 per unit received instead of the CU100 as stated in the agreement.

Example 58 – External Assistance

IE306. National Government A (Government A) enters into an external assistance agreement with National Government B (Government B), which provides Government A with development assistance to support Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties through an international court of law. The agreement specifies the details of the development assistance receivable by Government A and the types of items or expenditures the funds can be spent on to further its health objectives. Government A measures the transaction consideration of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to Government B.

IE307. At inception of the binding arrangement, Government A has a combined right and obligation which constitute a single asset or liability, which is measured at zero because the binding arrangement is wholly unsatisfied. Government A will recognize an asset on its statement of financial position in accordance with paragraphs 18–25 (for example, when Government A receives an inflow of resources from Government B, or if Government A begins satisfying its compliance obligation by incurring eligible expenditures in accordance with the terms of the external assistance agreement). Government A would also recognize a liability, which is derecognized (and earned revenue is recognized) as the compliance obligation is satisfied.

COMPARISON WITH IFRS 15

The binding arrangement accounting requirements in IPSAS 47, *Revenue* are drawn primarily from IFRS 15, *Revenue from Contracts with Customers* (issued in 2014, including amendments up to March 2018). The main differences between IPSAS 47 and IFRS 15 are as follows:

- IPSAS 47 applies to all revenue transactions in the public sector, which may arise from transactions with or without binding arrangements. IFRS 15 applies to a subset of binding arrangements, specifically contracts to deliver goods or services to customers.
- IPSAS 47 explicitly requires an entity to determine whether the revenue arises from a transaction with or without a binding arrangement. IFRS 15 does not explicitly require an entity to determine whether the revenue arises from a contract.
- IPSAS 47 uses the term “compliance obligation” as the unit of account for revenue recognition in a binding arrangement, which is a promise to either use resources internally for distinct goods or services, or to transfer distinct goods or services to another party (i.e., a purchaser or third-party beneficiary). IFRS 15 uses the term “performance obligation” as the unit of account for revenue recognition in a contract, which is a promise to transfer distinct goods or services to a customer.
- The concept of compliance obligations in IPSAS 47 is broader than performance obligations in IFRS 15. As a result, IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* is not applicable for public sector organizations because IPSAS 47 includes principles to account for capital transfers and other transfers arising from binding arrangements.
- IPSAS 47 requires an entity to disclose any transactions where it is compelled to satisfy an obligation, regardless of the counterparty’s ability or intention to pay and the probability of collection of consideration. IFRS 15 does not require this disclosure.
- IPSAS 47 uses different terminology from IFRS 15. For example, IPSAS 47 uses the terms "compliance obligation", “resource provider”, “stand-alone value”, and “economic substance”, while IFRS 15 uses the terms “performance obligation”, “customer”, “stand-alone selling price”, and “commercial substance”, respectively.

COMPARISON WITH GFS

In developing IPSAS 47, *Revenue*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 47 and GFS will depend on the facts and circumstances of the revenue transactions.
- Both IPSAS 47 and GFS require an entity to account for revenue on an accrual basis. However, IPSAS 47 uses accounting terminology whereas GFS uses economic terminology, which may lead to the same accounting outcome.
- IPSAS 47 distinguishes between revenue arising from transactions with or without a binding arrangement. GFS distinguishes revenue transactions by their characteristics, including whether it is a market transaction.
- IPSAS 47 considers the enforceability of the entity's individual rights and/or obligations in order to identify whether the revenue arises from a transaction with a binding arrangement. GFS considers different characteristics to identify the type of revenue, including whether it is a market transaction.
- Under IPSAS 47, an entity recognizes revenue when (or as) it satisfies any enforceable obligations associated with an inflow (or right to an inflow) of resources, as specified in the arrangement. Under GFS, the timing of revenue recognition is based on the type of revenue.
- IPSAS 47 includes disclosure requirements that are not present in GFS.

IPSAS 48—TRANSFER EXPENSES

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 48, *Transfer Expenses* was issued in May 2023.

May 2023

IPSAS 48, TRANSFER EXPENSES

CONTENTS

Objective

1. **The objective of this Standard is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions.**

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and

   (b) Sets out the accounting requirements for the transfer expense transaction.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for transfer expenses as defined in this Standard, including transfer expenses incurred for capital transfers.**

4. **This Standard does not apply to:**

   (a) **Leases as defined in IPSAS 43, *Leases*;**

   (b) **Contributions from, and distributions to, owners;**

   (c) **Service concession arrangements as defined in IPSAS 32, *Service Concession Arrangements: Grantor*;**

   (d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*;**

   (e) **Financial instruments, including concessionary loans, as defined in IPSAS 41, *Financial Instruments*;**

   (f) **Social benefits as defined in IPSAS 42, *Social Benefits*;**

   (g) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts);**

   (h) **Share-based payments (see the international or national accounting standard dealing with share-based payments); and**

   (i) **Income taxes (see the international or national accounting standard dealing with income taxes).**

5. A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards:

   (a) If the other Standards specify how to separately recognize and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 18-43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

   (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this Standard to the entirety of the binding arrangement.

   Paragraphs AG2-AG3 provide additional guidance on the scope of this Standard.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

From the perspective of a transfer provider, a capital transfer is an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG53 provides additional guidance).

The stand-alone consideration is the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.

For the purposes of this Standard, the transfer consideration represents the total amount of resources[1] which an entity expects to transfer.

A transfer expense is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return (paragraphs 8-9 provide additional guidance).

A transfer obligation is an entity's obligation in a binding arrangement to transfer resources in a specified manner.

A transfer obligation liability is the liability recognized for the existence of one or more transfer obligations arising from a binding arrangement.

A transfer provider is an entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.

A transfer recipient is an entity that receives a good, service, or other asset from another entity without directly providing any good, service or other asset to that entity.

A transfer right is an entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.

A transfer right asset is the asset recognized for the existence of one or more transfer rights arising from a binding arrangement.

7. The following terms are defined in IPSAS 47, *Revenue*:

(a) Binding arrangement;

(b) Compliance obligation;

(c) Taxes; and

(d) Third-party beneficiary.

A constructive obligation is defined in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

Expenses are defined in IPSAS 1, Presentation of Financial Statements.

Paragraphs AG4-AG9 provide additional guidance on the definitions in this Standard.

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.

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[1] In this Standard, the term resources includes goods, services, and other assets, and may encompass cash or non-current assets.

Identifying the Transfer Expense Transaction

8. **An entity accounts for a transfer based on whether or not the transaction results in the recognition of an asset. When a transfer results in the recognition of an asset, the asset is derecognized when (or as) the entity's rights from the transfer arrangement are extinguished.[2] For transfers which do not result in the recognition of an asset, a transfer expense is recognized:**

    (a) **When the entity loses control of the transferred resources; or**

    (b) **When the entity has incurred an obligation to transfer resources and recognizes a liability for the obligation.**

    The identification of whether the transaction arises from a binding arrangement impacts this determination, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria and whether an obligation to transfer resources exists.

9. An entity will apply the guidance on recognition and measurement in this Standard as follows:

    (a) Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 18-20; and

    (b) Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 21-43.

    Paragraph AG10 provides additional guidance on identifying the transfer expense transaction.

Binding Arrangements and Enforceability

10. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations.**

11. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.

12. A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the binding arrangement are interdependent and inseparable.

13. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors, and entities. In addition, they may vary within an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

14. A binding arrangement has at least one obligation because its enforceability holds the entity accountable for satisfying the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the transfer of resources.

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[2] The asset may be derecognized at a point in time or over a period of time depending on the terms of the arrangement.

15. When the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

16. A binding arrangement is wholly unsatisfied if both of the following criteria are met:

(a) The entity has not yet paid, and is not yet obligated to pay, any consideration to the transfer recipient for the transfer recipient satisfying any of its compliance obligations in the binding arrangement; and

(b) The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.

Paragraphs AG11-AG29 provide additional guidance on enforceability and binding arrangements.

Combination of Binding Arrangements

17. An entity shall combine two or more binding arrangements entered into at or near the same time with the same transfer recipient (or related parties of the transfer recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

(a) The binding arrangements are negotiated as a package with a single objective;

(b) The amount of resources to be transferred in one binding arrangement depends on the consideration or performance of the other binding arrangement; or

(c) The transfer recipient's obligations under the binding arrangements (or some of the transfer recipient's obligations under each of the binding arrangements) are a single transfer right in accordance with paragraph 21.

Transfer Expenses from Transactions without Binding Arrangements

Recognition

18. **For transfer expenses without binding arrangements, an entity shall recognize expenses as follows:**

(a) **At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with paragraph 22 of IPSAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognized provision; or**

(b) **If a constructive or legal obligation to transfer resources does not exist, when the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards.**

Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

Measurement

19. **When a provision is recognized in the situation described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.**

20. **When an entity recognizes an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.**

Transfer Expenses from Transactions with Binding Arrangements

Identifying Transfer Rights

21. **At the inception of a binding arrangement to transfer resources, an entity shall consider its rights in the binding arrangement and shall identify each distinct transfer right as:**

    (a) **A right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or**

    (b) **A series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of satisfaction.**

    Paragraphs AG31-AG34 provide additional guidance on identifying transfer rights.

Recognition of Transfer Expenses

22. When (or as) an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognized, and a transfer right asset is recognized for the transfer rights arising from the binding arrangement.

    Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

23. Conversely, when (or as) a transfer recipient satisfies its obligations in the binding arrangement prior to the entity transferring resources, the arrangement gives rise to a transfer obligation for the entity. The existence of a transfer obligation results in the recognition of a transfer obligation liability. A transfer obligation liability is also recognized when it is more likely than not that a present obligation exists for the transfer of variable consideration (see paragraphs 35-37).

24. **For transfer expenses with binding arrangements, an entity shall recognize expenses:**

    (a) **When (or as) a transfer right asset is derecognized; or**

    (b) **When a transfer obligation liability is recognized.**

25. The derecognition of the transfer right asset results from the extinguishment of the transfer rights in accordance with the terms of the binding arrangement. For each transfer right identified in paragraph 21, the transfer right is extinguished when (or as) the entity no longer has enforceable rights in accordance with the binding arrangement.

    Paragraphs AG35-AG49 provide additional guidance on the recognition of transfer expenses.

Derecognition of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient

26. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. Where the entity has an enforceable and unconditional right to the receipt of cash or other financial assets arising from the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances, the entity shall derecognize the transfer right asset and recognize a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with IPSAS 41. (See paragraph 43 for situations where a transfer right asset still exists but is impaired.)

Modifications to a Binding Arrangement

27. A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the binding arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations, or changes the existing enforceable rights and obligations of the parties to the binding

arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement, or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the original binding arrangement until the modification to the binding arrangement is approved.

28. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions exist:

(a) The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights (see paragraphs AG31-AG34), because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and

(b) The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.

29. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 28, an entity shall account for the modification to the binding arrangement as if it were a part of the original binding arrangement. The entity shall determine the accumulated transfer expense to be recognized as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights. The difference between the accumulated transfer expense determined as at the date of the modification and the accumulated transfer expense previously recognized shall be recognized in surplus or deficit as at the date of the modification.

Measurement

30. **An entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration (see paragraphs 35-37).**

31. **When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.**

32. **When a transfer expense is recognized from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right in accordance with paragraph 38.**

33. **When the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement.**

34. To determine the transfer consideration, an entity shall assume that the transfer recipient will satisfy its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

Variable Consideration

35. The resources required to be transferred by a binding arrangement can vary for items such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The resources can also vary if the entity's obligation to transfer the resources is contingent on the

occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the transfer recipient if it satisfies its obligations in the binding arrangement within a specified period.

36. For a transfer expense transaction, variable consideration in a binding arrangement may result in a liability of uncertain timing or amount, which meets the definition of a provision in IPSAS 19.

37. If the entity has determined that it is more likely than not that a present obligation exists for the transfer of variable consideration, the entity shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.

Allocating the Transfer Consideration to Transfer Rights

38. **When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.**

39. Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. An entity shall allocate variable consideration as follows:

    (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or

    (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).[3]

    Paragraphs AG50-AG51 provide additional guidance on allocating the transfer consideration to transfer rights.

Changes in the Transfer Consideration

40. After the inception of the binding arrangement, the transfer consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity is obligated to pay in the binding arrangement.

41. For a change in transfer consideration that did not arise from a modification to the binding arrangement, an entity shall allocate to the transfer right assets and transfer obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognized as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.

42. An entity shall account for a change in the transfer consideration that arises from a modification to the binding arrangement in accordance with paragraphs 27-29.

Impairment of a Transfer Right Asset

43. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. When this occurs, and the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances do not support the recognition of a financial asset as noted in paragraph 26, the entity shall assess the transfer right asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

[3] This guidance is also applicable to a specific portion of variable consideration that can or cannot be identified with one or more transfer rights.

Presentation

Display

44. **For transfer expenses from transactions without binding arrangement, if an entity recognizes a provision for a constructive or legal obligation to transfer resources, the resulting provision is presented in accordance with the presentation requirements for provisions in paragraphs 88, 94, and 107 of IPSAS 1.**

45. **For transfer expenses from transactions with binding arrangements, when only one party to a binding arrangement has performed and the other parties have yet to perform, an entity shall present the binding arrangement in the statement of financial position as a transfer right asset or transfer obligation liability, based on the guidance in paragraphs 22-23.**

46. An entity shall present a transfer right asset in accordance with the presentation guidance for prepayment assets in paragraphs 76, 90, 91, and 94 of IPSAS 1.

47. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity presents the financial asset in accordance with the requirements in IPSAS 28, *Financial Instruments: Presentation*.

48. An entity shall present a transfer obligation liability in accordance with the presentation guidance for transfers payable in paragraphs 80 and 88 of IPSAS 1.

49. As required by paragraph 109 of IPSAS 1, 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 the nature of expenses or their function within the entity. Paragraph 111 of IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of the reporting entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programs or purposes for which the transfers were made.

    Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

Disclosure

50. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:**

    (a) **Transfer expenses and related balances (see paragraphs 53-58);**

    (b) **Transfer arrangements (see paragraphs 59-60); and**

    (c) **The significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).**

51. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45-47 of IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

52. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

Transfer Expenses and Related Balances

53. As noted in paragraph 49, an entity shall incorporate transfer expenses in the analysis of expenses required by IPSAS 1. This analysis can be presented on the face of the statement of financial performance or disclosed in the notes.

Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

54. In addition to the analysis of expenses, an entity shall provide qualitative and quantitative information on the significant transfers arising from transactions with and without binding arrangements to enable users to understand how the entity's resources are spent on its programs, activities, and services.

55. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity applies the disclosure requirements for financial assets from IPSAS 30, *Financial Instruments: Disclosures*.

56. A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortized cost. Therefore, the disclosure requirements from IPSAS 30 for payables are applicable to such liabilities.

57. If a liability has been recognized for variable consideration (see paragraphs 35-37), an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.

58. For transfers from transactions without binding arrangements, when a liability is recognized for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.

Transfer Arrangements

59. An entity shall disclose information about its transfer binding arrangements, including a description of the following:

(a) The purpose of the transfer binding arrangements;

(b) Significant payment terms;

(c) The nature of the resources that have been or will be transferred; and

(d) Significant risks and uncertainties relating to the realization of transfer rights assets.

The above information can be aggregated for binding arrangements that are of a similar nature.

60. An entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements, an entity shall disclose the following:

(a) The purpose of the transfer arrangements;

(b) Significant payment terms, if any; and

(c) The nature of the resources that have been or will be transferred.

The above information can be aggregated for arrangements that are of a similar nature.

Significant Judgments, and Changes in Judgments, Made Regarding the Recognition of Transfer Right Assets from Transfer Expense Transactions

61. An entity shall disclose the significant judgments, and changes in judgments, made regarding the recognition of transfer right assets from transfer expense transactions. In particular, an entity shall explain the basis for the recognition of its transfer right assets.

Effective Date and Transition

Effective Date

62. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2026, it shall disclose that fact and shall apply IPSAS 47, *Revenue*, at the same time.**

63. 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.

Transition

64. **An entity shall apply this Standard using one of the following two methods:**

    (a) **Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or**

    (b) **Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 48.

AG1. This application guidance is organized into the following categories:

(a) Scope (paragraphs AG2-AG3);

(b) Definitions (paragraphs AG4-AG9);

(c) Identifying the Transfer Expense Transaction (paragraph AG10);

(d) Binding Arrangements and Enforceability (paragraphs AG11-AG29);

(e) Derecognition of the Transferred Resources (paragraph AG30);

(f) Identifying Transfer Rights (paragraphs AG31-AG34);

(g) Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs AG35-AG49);

(h) Allocating the Transfer Consideration to Transfer Rights (paragraphs AG50-AG51); and

(i) Presentation: Display and Disclosure (paragraph AG52); and

(j) Application of Principles to Specific Transactions (paragraphs AG53-AG55).

Scope (paragraphs 3-5)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good, service, or other asset to another entity without directly receiving any good, service, or other asset in return.

AG3. This Standard does not address transactions where an entity receives any good, service, or other asset in return for the good, service, or other asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

Definitions (paragraphs 6-7)

Binding Arrangement

AG4. An entity shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

Transfer Expense

AG5. This Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which the transfer provider (the entity) provides a good, service, or other asset to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, or an individual) without directly receiving any good, service, or other asset in return.

AG6. As noted in paragraph AG9, a transfer right asset is not considered a good, service, or other asset that is received directly from the transfer recipient.

Transfer Obligation and Transfer Obligation Liability

AG7. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations from a binding arrangement to transfer resources as transfer obligations. The liability recognized for the existence of one or more transfer obligations arising from a binding arrangement is referred to as a transfer obligation liability.

Transfer Recipient

AG8. A transfer recipient is an entity (which may be a public sector entity, a not-for-profit organization, an individual or another entity) that receives a good, service, or other asset from the transfer provider without directly providing any good, service, or other asset to that entity. While the transfer recipient does not provide any good or service to the entity, it may provide a good or service to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the entity.

Transfer Right and Transfer Right Asset

AG9. An entity's transfer right is the enforceable right to have the transfer recipient satisfy its obligations and arises where the entity has transferred resources to the transfer recipient in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations within the binding arrangement. A transfer right asset is not a good, service, or other asset to be directly received by the entity in return for transferring resources to the transfer recipient because:

(a) A transfer right asset is not a good or service;

(b) The transfer right asset arises because of timing differences between the satisfaction of respective obligations in a binding arrangement, not as a result of any transfer to the entity.

(c) The transfer right asset is not consideration to be provided by the transfer recipient in return for the entity transferring resources to the transfer recipient. It is the enforceable right for the satisfaction by the transfer recipient of its obligations in the binding arrangement.

Identifying the Transfer Expense Transaction (paragraphs 8-9)

AG10. This Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this Standard to a portfolio of transfers with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual transfers within that portfolio. Transfers without binding arrangements and transfers with binding arrangements do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Binding Arrangements and Enforceability (paragraphs 10-16)

Binding Arrangement

AG11. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly enters into the arrangement and is able to enforce its respective rights and obligations in the arrangement.

AG12. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

AG13. In accordance with paragraph 11, the assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the binding arrangement and the satisfaction of the other parties' stated obligations. Consequently, an entity's intentions about enforcing the binding arrangement do not affect the existence of a binding arrangement unless these intentions have been communicated to the transfer recipient such that they affect the enforceability of the binding arrangement.

AG14. Binding arrangements confer both rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations as transfer obligations. The entity also has rights to have the transfer recipient satisfy its obligations. This Standard refers to these rights as transfer rights.

Enforceability

AG15. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether the entity has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.

AG16. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the arrangement.

AG17. In the public sector, an arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:

(a) Distinct rights and obligations for each involved party; and

(b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.

AG18. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG19. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG20. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the agreed-upon obligations in the arrangement.

AG21. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the agreed-upon obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to satisfy the promises established within the arrangement or to seek redress should those promises not be satisfied.

AG22. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity, this may result in a valid enforcement mechanism.

AG23. A transfer recipient may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the entity to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the potential reduction in future funding could be considered a valid enforcement mechanism.

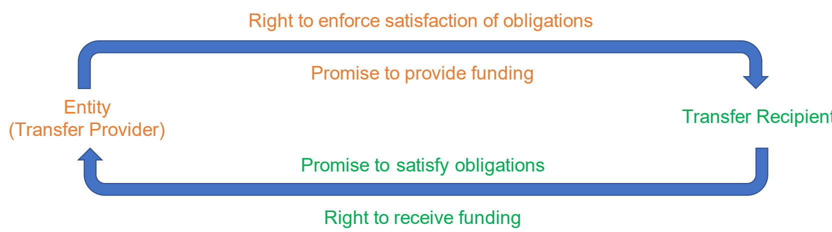
AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.

AG25. A statement of intent or public announcement by an entity such as a government promise to spend money or deliver goods or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Parties in a Binding Arrangement

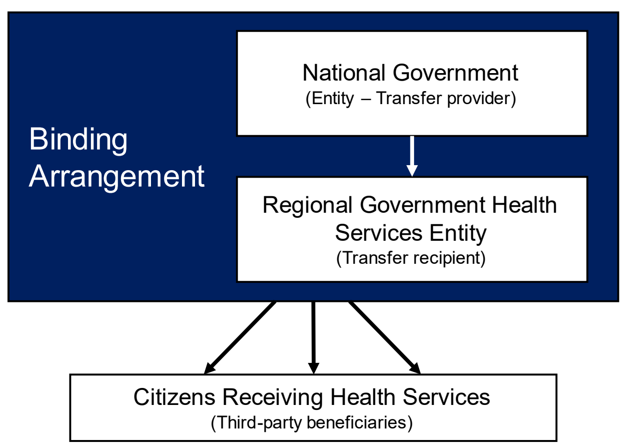
AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

AG27. That is, at a minimum, the entity must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration, and the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



AG28. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the transfer recipient to deliver goods and services.

AG29. However, for these multi-party arrangements to be classified as transfer expenses with binding arrangements, the entity must have the ability to compel the transfer recipient to deliver goods, services, or other assets to the third-party beneficiaries. In these multi-party arrangements, the transfer recipient is not an agent of the entity because the transfer recipient gains control of the resources from the entity and is responsible for providing goods, services, or other assets to the third-party beneficiaries. This relationship is illustrated in the following diagram.



Derecognition of the Transferred Resources (paragraphs 18 and 22)

AG30. For both transfer expenses transactions with and without binding arrangements:

(a) Prior to the transfer of a non-financial asset to a transfer recipient, the entity should consider paragraph 27(d) of IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to determine if there has been a significant change in use of the non-financial asset, which could be an indication of impairment;

(b) The consideration in paragraph AG30(a) does not apply to financial assets to be transferred, as the potential impairment of financial assets is assessed continuously in accordance with the requirements of IPSAS 41, *Financial Instruments*; and

(c) When the transferred resources are derecognized, an entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

Identifying Transfer Rights (paragraph 21)

AG31. Transfer rights provide the basis of the timing of recognition for transfer expenses. This Standard requires transfer expenses with binding arrangements to be recognized as or when a transfer right is extinguished, and therefore requires the entity to allocate the transfer consideration to transfer rights.

AG32. A transfer right is identified as a distinct right that can be enforced separately from other rights in the binding arrangement. Typically, from the entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.

AG33. The entity shall aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.

AG34. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient satisfy its obligations that are distinct. In such cases, the entity shall identify the binding arrangement as a single transfer right.

Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs 22-25)

Recognition at Inception of a Binding Arrangement

AG35. In accordance with paragraph 15, at the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.

AG36. Individual transfer rights and transfer obligations are recognized as items (assets, liabilities and expenses depending on their nature) only when or as one or more parties to the binding arrangement satisfy their stated obligations. An entity shall account for these items in accordance with paragraphs 22-25.

AG37. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognize any asset, liability, or expense for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Derecognition of the Transfer Right Asset

AG38. Typically, a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. When the transfer recipient satisfies its obligations, the entity's corresponding transfer right is extinguished.

AG39. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately.

AG40. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When an entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement. A method would not provide a faithful depiction of the progress towards complete extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's satisfaction of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, an entity should apply judgment.

AG41. In some situations, a transfer right asset may be derecognized when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 26). A transfer right asset may also be derecognized if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph AG15).

AG42. If the entity and the transfer recipient both satisfy their obligations from the binding arrangement at the same time, the entity's transfer right will no longer exist at the time of transfer, and an expense is recognized upon the transfer of resources.

Recognition of a Transfer Obligation Liability

AG43. If the transfer recipient has satisfied its obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the satisfaction of the obligation completed to date. As the transfer recipient has already satisfied its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the entity recognizes a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognized liability.

AG44. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the obligation. In assessing whether a transfer recipient has a right to payment for satisfaction of the obligation completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for satisfaction of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to satisfy its obligations as promised.

AG45. In some binding arrangements, an entity may or may not have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement. If an entity acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails to satisfy its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to satisfy its obligations and require the entity to pay the consideration promised in exchange for those obligations being satisfied. In those circumstances, a transfer recipient has a right to payment for satisfaction of its obligations completed to date because the transfer recipient has a right to continue to satisfy its obligations in accordance with the binding arrangement and to require the entity to satisfy its transfer obligations.

AG46. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement.

AG47. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for satisfaction of its obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for satisfaction of its obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration transferred by the entity is refundable for reasons other than the transfer recipient failing to satisfy its obligations as promised in the binding arrangement.

Interaction Between Transfer Right Assets and Transfer Obligation Liabilities

AG48. After recognition, the transfer right asset shall be increased by the carrying amount of additional resources transferred and decreased by the amount of expenses or any impairment recognized, until the carrying amount of the transfer right asset is zero. At that point, any further satisfaction of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.

AG49. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognized and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognized as a transfer right asset.

Allocating the Transfer Consideration to Transfer Rights (paragraphs 38-39)

AG50. Where a binding arrangement specifies the amount of stand-alone consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration).

AG51. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for satisfying its obligations when negotiating the binding arrangement.

Presentation: Display and Disclosure (paragraphs 44-61)

AG52. Paragraph 49 requires transfer expenses to be included in the analysis of expenses, either presented on the face of the statement of financial performance or disclosed in the notes. To meet this requirement and the disclosure objective in paragraph 50, an entity shall provide sufficient information in the analysis of expenses, along with a description of the nature of the entity's operations and principal activities as required by paragraph 150 of IPSAS 1, *Presentation of Financial Statements*, to enable users to understand how the entity's resources are spent on its programs, activities and services.

Application of Principles to Specific Transactions

Capital Transfers

AG53. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where the entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to at least one transfer right to the entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or comply with non-compliance requirements as specified in the binding arrangement.

AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21-25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately account for each transfer right by applying paragraphs 22-25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the transfer recipient, upon the transfer of resources, the entity typically recognizes a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.

AG55. Some binding arrangements for capital transfers may include a transfer right for the acquisition or construction of a non-financial asset, which meets the definition of a capital transfer, and separate transfer rights for the operation of the asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more transfer rights relating to the operation of the asset by assessing whether the transfer consideration is intended to compensate the transfer recipient for the operation of the asset once constructed or acquired.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraph 17 is amended, and paragraph 71J is added. New text is underlined, and deleted text is struck through.

…

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.

…

Effective Date

…

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.

…

Amendments to IPSAS 12, *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 51J is added. New text is underlined, and deleted text is struck through.

…

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. …

…

Measurement of Inventories

…

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.

…

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 ~~when the goods are distributed or the related service is rendered~~ 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.

…

Effective Date

…

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.

…

Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)

Paragraphs 41A, 43A, 43B and 154O are added. New text is underlined, and deleted text is struck through.

…

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

…

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

…

41A. To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allow a three year transitional relief period to not recognize and/or measure financial liabilities, it is not required to recognize and/or measure any related expenses in terms of IPSAS 48, *Transfer Expenses*.

…

Recognition and/or Measurement of Transfer Expenses

43A. A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of transfer expenses for reporting periods beginning on a date within three years following the date of adoption of IPSAS. A first-time adopter may change its accounting policy in respect of transfer expenses on a class-by-class basis.

43B. The transitional provision in paragraph 43A is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring transfer expenses in accordance with IPSAS 48, *Transfer Expenses*, during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of transfer expenses that do not comply with the provisions of IPSAS 48. The transitional provision in paragraph 43A allows a first-time adopter to apply IPSAS 48 incrementally to different classes of transfer expenses. For example, a first-time adopter may be able to recognize and measure transfer expenses without binding arrangements in accordance with IPSAS 48 from the date of adoption of IPSAS, but may require three years to fully develop a reliable model for recognizing and measuring transfer expenses with binding arrangements.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

IPSAS 48, *Transfer Expenses*

IG89A. If a first-time adopter applies IPSAS 48 on a retrospective basis and has transferred amounts that do not yet qualify for recognition as an expense (for example, the transfer of resources where the related transfer right has not yet been extinguished), the first-time adopter recognizes the amounts transferred as an asset in its opening statement of financial position and measures that asset at the amount transferred. It shall derecognize the asset and recognize the expense in its statement of financial performance when the recognition criteria in IPSAS 48 are met.

…

Summary of Transitional Exemptions and Provisions Included in IPSAS 33, *First-time Adoption of Accrual Basis IPSAS*

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSAS.

	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
…								
IPSAS 48, *Transfer Expenses*			✓ All transfer expenses not recognized under previous basis of accounting	✓ All transfer expenses recognized under previous basis of accounting	✓ To extent that 3-year relief period was adopted for assets and/or liabilities			

…

Effective Date

154O. Paragraphs 41A, 43A and 43B were added 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 encouraged. If an entity applies the amendment for a period beginning before January 1, 2026 it shall disclose that fact and apply IPSAS 48 at the same time.

…

Amendments to IPSAS 40, Public Sector Combinations

Paragraphs IE164, IE265, IE264 and IE265 are amended, and paragraph IE266 is deleted. New text is underlined, and deleted text is struck through.

…

Illustrative Examples

…

Accounting for Amalgamations

…

Eliminating Transactions between the Combining Operations – Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

…

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its performance obligation, in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. ~~Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the grant, but accounted for the full CU700 as an expense.~~ Upon the transfer of funds, COA recognized a transfer right asset for its right to have COB deliver the training courses. Immediately prior to the amalgamation, based on COB's delivery of the courses up to the amalgamation, COA derecognizes CU350 of the transfer right asset and recognizes the amount as a transfer expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party or an enforceable right to have an external party deliver training courses. ~~The resulting entity does not recognize a liability no for the CU250, but instead recognizes this amount in the net assets/equity.~~

…

IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of its performance obligation, in accordance with IPSAS 23. ~~Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the grant, but accounted for the full CU800 as an expense.~~ Upon the transfer of funds, AE recognized a transfer right asset for its right to have TE deliver the training courses. Immediately prior to the acquisition, based on TE's performance to date, AE derecognizes CU200 of the transfer right asset and recognizes the amount as a transfer expense.

IE265. In this example, AE calculates a gain of CU600. The gain is calculated as the liability is assumed that is derecognized because, as a result of the acquisition, AE eliminates the liability of CU600 against the transfer right asset of CU600, as there is no longer an obligation owed to a third party or the enforceable right to have an external party deliver training course.

IE266. ~~In this example, no corresponding asset had been recognized by AE; if AE had previously recognized a corresponding asset, this would be derecognized at the acquisition date, and the derecognized amount would be included in the calculation of the gain or loss.~~[Deleted.]

…

Amendments to IPSAS 42, *Social Benefits*

Paragraph IG2 is amended. New text is underlined, and deleted text is struck through.

…

This guidance accompanies, but is not part of, IPSAS 42

…

Scope of IPSAS 42

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

Transfer Expenses (IPSAS 48)

~~Non-Exchange Expenses Project~~

Social Benefits (IPSAS 42)

Other IPSAS/IFRS

Category	~~Grants, Contributions and Other~~ Transfer~~s~~ Expenses	~~Emergency Relief~~	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	~~Grants~~Transfers to other public sector entities ~~Grants~~Transfers to charities	~~Emergency relief Planning and preparation activities~~	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Exchange or Non-Exchange Type Transactions?	Non-Exchange	~~Non-Exchange~~	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	Sometimes	~~Sometimes~~	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	~~Sometimes~~	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	Sometimes	~~No~~	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	Sometimes	~~No~~	Yes	Yes	Yes	No	No	No

Scope of Social Benefits in GFS

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 48.

Introduction

BC1. 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. For many governments, the delivery of services to the public through social benefits, collective and individual services, and transfer expenses accounts for a significant portion of their expenditures.

BC2. In March 2015, the IPSASB approved a project brief to develop the requirements for accounting for non-exchange expenses, other than social benefits. The project brief acknowledged that there has been little guidance on non-exchange transactions from the provider's perspective and that this area was a gap in the IPSASB's literature.

BC3. The IPSASB undertook a phased program of work to address non-exchange transactions from the provider's perspective, beginning with IPSAS 42, *Social Benefits*, which was issued in January 2019, then continuing with *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020.

BC4. For the remaining non-exchange expenses, the IPSASB released a Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017 to seek constituent views on potential recognition and measurement for both revenue and non-exchange expenses. The CP:

(a) Proposed replacing the then-current IPSAS dealing with revenue from exchange transactions and construction contracts with an IPSAS based on IFRS 15, Revenue from Contracts with Customers;

(b) Proposed updating IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) to address issues identified by users; and

(c) Considered recognition approaches for significant non-exchange expense transactions.

Development of Exposure Draft 72, Transfer Expenses *(ED 72)*

BC5. Based on constituents' feedback on the CP, the IPSASB developed ED 72The ED:

(a) Proposed a definition for transfer expense;

(b) Proposed the classification of transfer expenses based on whether the transfer recipient has at least one performance obligation; and

(c) Proposed accounting and disclosure requirements for:

(i) Transfer expenses without performance obligations; and

(ii) Transfer expenses with performance obligations, which were largely based on application of the Public Sector Performance Obligation Approach (PSPOA) and mirrored the accounting for revenue with performance obligations.

BC6. In February 2020, the IPSASB published ED 72, together with ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. The three EDs were released together to highlight the linkages between the accounting for revenue and transfer expenses.

Feedback from Constituents on ED 72

BC7. The IPSASB received a broad and diverse set of comment letters in response to ED 72. While the feedback indicated that some constituents supported the proposals, the following significant concerns were also identified:

(a) The distinction between transfer expenses with and without performance obligations appeared to be unnecessary or artificial, as there was no economic difference between these transactions from a transfer provider's perspective;

(b) The distinction based on performance obligations also did not reflect the way transfer expense transactions were carried out in the public sector, as under ED 72, only transfer expenses where the transfer recipient had at least one performance obligation could result in the recognition of an asset. Many respondents identified examples of transactions where they retained control over the transferred resources (and thus did not immediately derecognize the asset), even if the transfer did not involve performance obligations;

(c) The proposals in ED 72 required a transfer provider to consider the transaction from the transfer recipient's perspective and assumed that the transfer provider has access to information regarding the transfer recipient's performance obligations. Many respondents noted that this assumption is not realistic and will lead to practical difficulties in applying the proposed guidance;

(d) In ED 72, only transfer expenses with performance obligations could result in the recognition of an asset. Respondents noted that this accounting model did not necessarily achieve consistency in accounting principles, particularly with asset recognition principles in The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework); and

(e) The majority of respondents commented that because the proposed disclosures in ED 72 were based on the disclosure requirements from IFRS 15, they did not reflect the nature of transfer expenses, which have different characteristics and risks. Some respondents noted that the proposed disclosures would also impose an administrative burden that is disproportionate to any benefits for users.

Discussion with the IPSASB Consultative Advisory Group (CAG)

BC8. The IPSASB consulted the CAG at its December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

IPSASB's Response to Feedback on ED 72

BC9. In light of the responses to ED 72, the IPSASB decided not to proceed with the proposals in ED 72 and to revisit the proposed accounting and disclosures for transfer expenses to:

(a) Use the transfer provider's perspective when developing accounting and disclosure requirements;

(b) Move away from the PSPOA and the distinction between transfer expenses with and without performance obligations;

(c) Focus on whether the transfer results in the recognition of an asset when developing accounting requirements;

(d) Use binding arrangements as a fundamental concept for transfer expense accounting;

(e) Where appropriate, simplify presentation and disclosure requirements; and

(f) Revise the illustrative examples to reflect the above changes in the proposed accounting and disclosures for transfer expenses.

Scope (paragraphs 3-5)

BC10. When the IPSASB developed ED 72, the Board had noted that the main group of non-exchange expense transactions which were not already addressed by IPSAS 41, *Financial Instruments*, IPSAS 42 or the amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, consisted of grants, contributions, and other transfers. The IPSASB noted at the time that this group of transactions was covered by the definition of 'transfers' in the statistical reporting frameworks and that aligning the scope of ED 72 with the definition of 'transfers' in the statistical reporting frameworks would be consistent with the IPSASB's Policy Paper, *Process for Considering GFS Reporting Guidelines During Development of IPSAS*. As a result, the IPSASB agreed to align the scope of ED 72 with the definition of 'transfers' (see paragraph 6) in the statistical reporting frameworks. This scoping decision was retained in IPSAS 48, *Transfer Expenses*.

BC11. The IPSASB also decided that contributions from owners and distributions to owners did not meet the definition of transfers and were consequently outside the scope of IPSAS 48.

BC12. The IPSASB considered whether IPSAS 48 should explicitly state that onerous contracts are not applicable to transfer expenses and noted that when IPSAS 19 was developed from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the definition of 'onerous contract' was modified to explicitly refer to the exchange of assets or services. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that transfer expenses could not meet the definition of an 'onerous contract'. Therefore, no explicit scope exclusion is required.

Definitions (paragraphs 6-7)

BC13. As noted in paragraph BC10, the IPSASB had decided to align the definition of 'transfer' with the definition in the statistical reporting frameworks. The *Government Finance Statistics Manual 2014* (GFSM 2014) defines a transfer as follows:

A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.

BC14. Having agreed to use the GFSM 2014 definition of 'transfer' as the basis for the scope of ED 72, the IPSASB had agreed to base the definition of 'transfer expenses' in ED 72 on the GFSM definition. The IPSASB had agreed to adopt the term 'transfer expenses,' as the term 'transfers' had previously been used in IPSAS 23, where the term 'transfers' referred to inflows (i.e., revenue) only. In IPSAS 23, the term 'transfers' also excluded taxes, and the IPSASB had agreed to exclude taxes from the definition of 'transfer expenses' for consistency.

BC15. The definition of 'transfer expense' and the exclusion of taxes was retained in IPSAS 48, as the definition of 'transfer' in IPSAS 47, *Revenue*, also only referred to revenue and excluded taxes.

BC16. As noted in paragraph BC9, the IPSASB decided to revisit the proposed accounting model for transfer expenses. Based on the revisions, as explained in paragraphs BC20-BC30, the IPSASB agreed to define the following terms in IPSAS 48:

(a) Transfer obligation;

(b) Transfer obligation liability;

(c) Transfer right; and

(d) Transfer right asset.

BC17. IPSAS 48 complements IPSAS 47 and relies on certain definitions in IPSAS 47 where possible (see paragraph 7). In some cases, the switch in perspective from recognizing revenue to recognizing an expense required a modification to the definitions. Consequently, the IPSASB agreed to define the following additional terms in IPSAS 48:

(a) Stand-alone consideration; and

(b) Transfer consideration.

These definitions are based on the definitions of ‘stand-alone value’ and ‘transaction consideration’ in IPSAS 47.

BC18. This Standard refers to the party providing resources in a transfer expense transaction as the ‘transfer provider’, while IPSAS 47 refers to the party providing resources in a revenue transaction as the ‘resource provider’. The IPSASB considered whether the same term should be used in both Standards and decided that because the scope of IPSAS 47 is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.

BC19. The IPSASB also considered the definition of ‘expenses’ in IPSAS 1, *Presentation of Financial Statements*, as well as the definition of ‘constructive obligation’ in IPSAS 19 and concluded that no changes were required. The IPSASB agreed to include cross-references to these definitions in IPSAS 48 (see paragraph 7 of IPSAS 48).

Identifying the Transfer Expense Transaction (paragraphs 8-9)

BC20. Based on the decision to revisit the general accounting model for transfer expenses, the IPSASB decided that the key transfer expense accounting principle is whether the transaction results in the recognition of an asset by the entity. Transfer transactions which do not result in the recognition of an asset are generally recognized as a transfer expense when the entity loses control of the transferred resources or when the entity has incurred an obligation to transfer resources. The IPSASB also decided that when the entity has incurred an obligation to transfer resources, it recognizes a liability and a transfer expense.

BC21. To operationalize the decisions in paragraph BC20, the IPSASB noted that whether the transaction arises from a binding arrangement provides inputs into the assessment of whether the asset recognition criteria is met and whether the entity has an obligation to transfer resources. Therefore, the IPSASB decided to move away from classification based on performance obligations and to classify transfer expenses based on whether they arise from transactions with or without binding arrangements.

Binding Arrangements and Enforceability (paragraphs 10-17)

BC22. The decision to classify transfer expenses based on whether or not the transfer expense arises from a binding arrangement is consistent with the decision on how revenue should be categorized. As outlined in the Basis for Conclusions in IPSAS 47, the IPSASB clarified the impact of binding arrangements and enforceability in IPSAS 47 and agreed that these clarifications also apply to transfer expenses.

BC23. This decision had the following impacts on the development of IPSAS 48:

(a) The definition of a ‘binding arrangement’ was carried over from IPSAS 47;

(b) The guidance on how to determine if an arrangement is enforceable through legal or equivalent means by considering all relevant factors and whether the arrangement meets the definition of a binding arrangement was also carried over;

(c) Enforceability is based on the entity’s ability to enforce the terms of the binding arrangement, including imposing non-compliance requirements on parties that do not fulfill their agreed-upon obligations;

(d) The assessment of enforceability for transfer expenses occurs at the inception of a binding arrangement and when a significant internal or external change indicates that there may be a change in enforceability;

(e) In a binding arrangement, each party will have at least one enforceable right and one obligation;

(f) For transfer expenses with binding arrangements, there is no initial recognition when none of the parties has started to satisfy its stated obligations under the binding arrangement;

(g) Because an entity's right and obligation within a binding arrangement are directly linked and interdependent, when both the entity and transfer recipient begin to perform in accordance with the binding arrangement, the resulting transfer right assets and transfer obligation liabilities arising from the same binding arrangement are presented as a single asset or liability in the statement of financial position; and

(h) Where a transfer expense arises from a transaction that is subject to an appropriation, the appropriation may limit the enforceability of the related arrangements and impact whether they are binding. The IPSASB noted that this conclusion results from the application of the principles on binding arrangements and enforceability, and therefore developed implementation guidance on how appropriations could impact transfer expense transactions.

Transfer Expenses from Transactions without Binding Arrangements (paragraphs 18-20)

BC24. The IPSASB decided that when a transfer expense arises from a transaction without a binding arrangement, there is no basis for the recognition of a transfer right asset from the transfer of resources. (That is, the recognition of a transfer right asset is only possible when a transfer arises from a binding arrangement—see paragraph BC27.) In these cases, the IPSASB decided that when the transfer occurs and control of the asset is lost, the entity derecognizes the transferred asset and recognizes a transfer expense at the asset's carrying amount.

BC25. The IPSASB noted that even when there is no binding arrangement, an entity may still have a one-way enforceable right which results in retaining control of the resources after they are transferred. In these cases, the entity would consider the principles in the Conceptual Framework and IPSAS 1, and whether it should recognize an asset. Because this asset's recognition is driven by the definition of an asset in IPSAS 1, the IPSASB decided to include implementation guidance on these situations, and no additional authoritative text is required.

BC26. The IPSASB also noted that even when there is no binding arrangement, if facts and circumstances result in a legal or constructive obligation to transfer resources, the entity is required to recognize a liability in accordance with IPSAS 19. IPSAS 48 refers to this liability as a transfer obligation liability.

Transfer Expenses from Transactions with Binding Arrangements (paragraphs 21-43)

Recognition

BC27. The IPSASB decided that when an entity begins to transfer resources as specified in a binding arrangement, the transfer results in a transfer right (i.e., the transfer provider's enforceable right to have the transfer recipient fulfill its obligations, or carry out the non-compliance requirements outlined in the binding arrangement) which meets the definition of an asset in the Conceptual Framework. This is because:

(a) The transfer right embodies a resource (i.e., the right to direct how the transfer recipient is to use resources internally);

(b) The binding arrangement provides the transfer provider with control of the transfer right; and

(c) This control arises from a past event (i.e., the transfer of resources within the context of a binding arrangement).

BC28. The IPSASB decided that an asset recognized to reflect the existence of a transfer right shall be referred to as a transfer right asset. When or as the entity's transfer right is extinguished, the basis of asset recognition no longer exists. Therefore, the related transfer right asset is derecognized and expensed.

BC29. The IPSASB also decided that when a transfer recipient has satisfied its obligations in a binding arrangement, the entity is obligated by the terms of the binding arrangement to transfer resources. This obligation results in the recognition of a liability in accordance with the Conceptual Framework[4], and IPSAS 48 refers to such a liability as a transfer obligation liability.

Measurement

BC30. The IPSASB made the following decisions regarding the measurement of transfer expenses arising from transactions with binding arrangements:

(a) Similar to transfer expenses from transactions without binding arrangements, the transfer consideration is measured based on the total carrying amount of the transferred resources, adjusted for the effects of variable consideration;

(b) The guidance on variable consideration should refer to the existing recognition and measurement guidance for a provision in IPSAS 19. This is because variable consideration for a transfer expense is of a similar nature as a provision (i.e., a liability of uncertain timing and amount);

(c) The requirement in ED 72 to consider the time value of money and the effect of financing was removed. Many respondents to ED 72 noted that transfers are typically funded in tranches rather than one large upfront payment, so it would be rare for the discounting of transfers to have a material impact on the financial statements; and

(d) The allocation of the transfer consideration to the individual transfer rights in a binding arrangement should be based on the amounts stated in the binding arrangement, or if not explicitly stated, the amounts that the entity intends to compensate the transfer recipient for satisfying each of its compliance obligations in the binding arrangement. The IPSASB noted that this simplification is appropriate because:

(i) A transfer provider would be fully aware of how much it is willing to pay for each transfer right when negotiating the binding arrangement with the transfer recipient; and

(ii) The allocation requirements are more robust for revenue because, in addition to potentially changing the timing of revenue recognition, an inappropriate allocation for revenue could obscure the margins for certain goods or services or delay the recognition of losses. These additional concerns are not applicable for transfer expenses.

Presentation (paragraphs 44-61)

BC31. As noted in paragraph BC7(e), respondents to ED 72 raised concerns that the proposed disclosures were overly burdensome and did not focus on the nature and risks of transfer expense transactions. To address these concerns, the IPSASB decided to significantly reduce the required display and disclosures requirements to focus on the following areas:

(a) Display and disclosure of transfer expenses and related balances – The IPSASB noted that many of the display and disclosure requirements in existing IPSAS are applicable to transfer expenses and related balances. These include:

(i) The analysis of expenses, as well as the display and disclosure of prepayment assets and transfers payable in IPSAS 1;

(ii) The display and disclosure requirements in IPSAS 28*, Financial Instruments: Presentation*, and IPSAS 30, *Financial Instruments: Disclosures*, are applicable to financial assets, as well as

[4] The IPSASB referred to the definition of a liability in the Conceptual Framework rather than IPSAS 1 at this stage, as IPSAS 1 has not yet been updated for the proposed changes to the framework.

transfer obligation liabilities which meet the definition of financial liabilities, which arise from a transfer expense transaction; and

(iii) The display and disclosure requirements in IPSAS 19 are applicable to provisions recognized for constructive obligations or variable consideration.

As a result, the IPSASB decided to cross-reference to these requirements rather than develop new display and disclosure requirements;

(b) Qualitative information regarding transfer arrangements – To enable users of the financial statements to understand the nature, amount, timing, and uncertainty arising from transfer expenses, the IPSASB decided to require the disclosure of certain qualitative information for both binding arrangements and non-binding arrangements regarding transfer expenses; and

(c) Significant judgments made regarding the recognition of transfer right assets – Because expenditures for programs and activities are typically expensed in the statement of financial performance, the recognition of a transfer right asset is not in line with general expectations. Therefore, the IPSASB decided to require the disclosure of significant judgments that led to the recognition of transfer right assets.

BC32. In addition, respondents to ED 72 had previously raised concerns over the complexity and value of reconciliations for opening and ending balances of transfer right assets and transfer obligation liabilities. Respondents also noted that these items are similar in nature to prepayment assets and transfers payable, which do not require such disclosures. Based on the feedback received, the IPSASB decided to remove the requirement to disclose these reconciliations.

BC33. The IPSASB decided to use the terms ‘transfer provider’, ‘transfer recipient’, ‘transfer right asset’ and ‘transfer obligation liability’ but this Standard does not prohibit an entity from using alternative descriptions in the financial statements for those terms. In addition, because this Standard refers to the disclosure requirements in other IPSAS as noted in paragraph BC31, an entity need not repeat the disclosure of information in accordance with this Standard if it has provided the information in accordance with another Standard.

Effective Date and Transition (paragraphs 62-64)

BC34. When ED 72 was developed, the transition provisions, including the practical expedients available, largely mirrored those from the revenue EDs. Some respondents noted that even with the practical expedients, the retrospective transitional provisions in ED 72 were onerous, with benefits not outweighing the costs, and could lead to practical difficulties in applying the final standard.

BC35. Based on the feedback received, the IPSASB noted that allowing prospective application of IPSAS 48 would not result in a significant loss of information because:

(a) If a transfer expense was fully expensed in the prior period, the transfer of resources would have already occurred and would have been reported in the prior period financial statements. Even if the expensed amount would have qualified for asset recognition in accordance with the revised guidance, requiring an entity to reverse a transfer expense would not result in any new information regarding the underlying expenditure; and

(b) If an entity recognized an asset or liability for a transfer expense transaction by applying the asset or liability recognition and measurement principles of the Conceptual Framework, these principles are already consistent with the revised accounting model for transfer expenses.

BC36. Based on the above reasons, the IPSASB decided to allow prospective application of IPSAS 48 for all transfers occurring on or after the date of initial application. To provide entities with the flexibility to adjust their prior-period financial statements, the IPSASB also decided to include the option to adopt IPSAS 48 on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Application Guidance

BC37. The IPSASB considered the interaction between transfer expenses and the potential impairment of the assets to be transferred. The IPSASB noted that when a decision has been made to transfer a non-financial asset in the context of a transfer expense transaction, the asset is no longer held for the purposes of generating a commercial return and becomes a non-cash-generating asset for impairment purposes. Before the asset is transferred, the entity should consider if the decision to transfer the asset results in a significant change in use, which is an indicator to consider impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*. The IPSASB also noted that this separate consideration of impairment is not applicable to financial assets, as IPSAS 41 requires such assets to be assessed for impairment continuously. These decisions have been reflected in application guidance, as they relate to the application of existing IPSAS rather than new principles.

BC38. The IPSASB noted the revised general accounting model for transfer expenses arising from transactions with binding arrangements fully addresses transactions involving capital transfers. Therefore, the IPSASB decided that capital transfers should be addressed in application guidance and implementation guidance, and that no separate principles are required to be developed.

Consideration of Re-Exposure

BC39. The IPSASB considered whether there had been a substantial change to the ED such that re-exposure may be necessary:

(a) The IPSASB discussed the differences between IPSAS 48 and ED 72 issued in 2020. In particular, the IPSASB discussed the accounting for transfers from the transfer provider’s perspective and the use of a rights-based approach to asset recognition rather than the PSPOA. The IPSASB agreed that the changes made since the ED process addresses issues raised by constituents, and results in a clearer Standard. Although there were differences in the drafting and the mechanics in the Standard, there were no significant changes to the intended accounting for transfer expenses.

(b) The IPSASB noted that issuance of IPSAS 48 fills a gap in the IPSAS suite of standards. The IPSASB agreed that, from a public interest perspective, the expected costs of re-exposure, including delayed implementation of the standard that constituents are actively seeking, outweigh the potential benefits of re-exposure.

BC40. Based on the above assessment, the IPSASB decided to approve IPSAS 48 without re-exposure and to finalize and issue the Standard.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 48.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a 'capital transfer'?

It depends on what the binding arrangement requires the transfer recipient to do with the asset.

A transfer of a physical asset is a 'capital transfer' if the entity transfers the physical asset within a binding arrangement and the transfer recipient is required by the binding arrangement to use the physical asset received to acquire or construct another non-financial asset that it will subsequently control. A transfer of a physical asset which only has a requirement to be used or operated in specific manner would not meet the definition of a 'capital transfer'.

Section B: Identifying the Transfer Expense Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public sector entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the parties in the arrangement, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of transfer expenses to ensure fair presentation of such transactions.

Correctly identifying whether or not the transfer expense transaction arises from a binding arrangement is integral to correctly applying this Standard. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its transfer expense transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 10-16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which shall be accounted for appropriately. (See Implementation Guidance C.1 for these scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence) or equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgment and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG15-AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Transfers Subject to Appropriations

Can an appropriation give rise to a transfer expense?

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or similar authority.

An appropriation itself typically does not result in an accounting event or transaction. However, like other transfers that do not arise from a binding arrangement, there may be situations when an appropriation, in combination with external announcements or other communications, may create a valid expectation with other parties that the entity which approved the allocation of funds is accepting and discharging certain responsibilities. In these situations, IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*, is applicable, and a provision is recognized if a legal or constructive obligation exists. If an appropriation does not give rise to a legal or constructive obligation, the entity accounts for the subsequent transfer by applying the principles in this Standard.

How should an entity consider the impact of appropriations on its transfer expense transactions arising from binding arrangements?

Appropriations on their own do not prove, nor refute, the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of its specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred to a transfer recipient by an entity are subject to an appropriation process being completed by an unrelated third-party in accordance with the laws and regulations in the jurisdiction. The entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity.

If the limitation (that the resources to be transferred are subject to an appropriation) has substance, the arrangement is not enforceable and thus not a binding arrangement, as the transfer recipient cannot establish an enforceable right to those resources before the appropriation process is completed.

In other circumstances, a transfer that is subject to appropriations could still be enforceable if the arrangement is set up in a way that the mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity, prior to the appropriation process being completed.

In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:

(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of an entity;

(b) The exercise of that authority has occurred. In essence, a decision by the approved enabling authority clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the entity has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority, together with the exercise of that authority, may be sufficient for an entity to conclude that the transfer recipient has an enforceable right to those resources in the arrangement that enables the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose non-compliance requirements on the entity, prior to the completion of the appropriation process. In such circumstances, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when an entity has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 7. If it meets the definition, the entity accounts for the transfer expense arising from the binding arrangement in accordance with paragraphs 21-43.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with this Standard, IPSAS 19 or IPSAS 41, *Financial Instruments*.

Section C: Transfer Expenses from Transactions without Binding Arrangements

C.1 Accounting for Transfers Arising from Transactions without Binding Arrangements

When the entity transfers resources in a transaction without binding arrangements, is it possible for the transfer to result in the recognition of a transfer right asset?

No. Because a transfer right asset is defined as an asset recognized for the existence of one or more transfer rights arising from a binding arrangement, it will not be possible to recognize a transfer right asset without a binding arrangement.

However, it is possible for an entity to have an enforceable right over transferred assets (for example, the right to direct the recipient on how to use resources) without an enforceable obligation as the result of a transfer expense transaction without binding arrangements. In such cases, the transfer would result in the recognition of an asset which would be derecognized when or as the enforceable right is extinguished.

Section D: Transfer Expenses from Transactions with Binding Arrangements

D.1 Identifying Transfer Rights in a Binding Arrangement

How does an entity determine the individual transfer rights in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

From the transfer provider's perspective, a binding arrangement has at least one transfer right. A transfer right, as defined in paragraph 6, is a unit of account to determine the distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of transfer expenses. In practice, since binding arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, an entity must use professional judgment as it applies paragraphs 21 and AG31-AG34 to determine the individual transfer rights in its binding arrangement.

An entity should first identify all the rights to require the transfer recipient to satisfy its compliance obligation(s) in a manner as specified in the binding arrangement. In the context of a binding arrangement for transfer expenses, rights include the ability to require the transfer recipient to use resources for a good or service internally or to transfer a good, service, or other asset (which could include cash) to a third party or third parties. A thorough assessment is necessary for the entity to identify all of its rights in the binding arrangement.

An entity then considers each identified right to determine if a right is itself a distinct transfer right, or whether it should be grouped with other rights to be a single distinct transfer right. Thus, a transfer right is a unit of account that represents a distinct right or group of rights to which recognition criteria and measurement concepts are applied (paragraphs 22-43).

A right in a binding arrangement is distinct if it can be enforced separately from other rights in the arrangement. An entity considers the following factors when assessing whether a right is distinct:

The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;

(a) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and

(b) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

Any distinct right, or distinct group of rights, identified by the entity through this analysis would be an individual transfer right.

Section E: Recognition of Transfer Expenses from Transactions with Binding Arrangements

E.1 Derecognition of a Transfer Right Asset

An entity has determined that it has one transfer right which is extinguished over time. How does the entity determine a measure of progress that best depicts the extinguishment of its transfer right?

In general, a transfer right is extinguished (and the related transfer right asset is expensed) when or as an entity can no longer require the transfer recipient to act in accordance with the binding arrangement. This often occurs when or as the transfer recipient has satisfied its obligations in the arrangement, so the appropriate method of measuring progress depends on the specific nature of the entity's transfer rights and the specific terms of the binding arrangement. In situations where the binding arrangement consists of one transfer right to have the transfer recipient satisfy various interrelated activities, the transfer right may be partially extinguished as individual activities are being performed by the transfer recipient. Common considerations which could inform when a transfer right has been partially extinguished include:

(a) The transfer recipient has performed activities specified in the binding arrangement;

(b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and

(c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There may be situations in the public sector where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, some binding arrangements may specify that the extinguishment of an entity's transfer right depends on the satisfaction of the ultimate transfer recipient's compliance obligations. Other binding arrangements may result in transfer rights and compliance obligations at each step of the series as resources are being transferred from one entity to the next. An entity will need to consider the terms of the binding arrangements and any relevant facts and circumstance to determine when to derecognize its transfer right assets.

In other cases, a transfer right may be extinguished due to the transfer recipient's inability or unwillingness to satisfy its obligations in the binding arrangement. When this occurs, the entity considers if the terms of the binding arrangement, along with the legal framework in the relevant jurisdiction, give the entity the unconditional right to receive cash (e.g., a refund of the transferred cash). Such an unconditional right results in the derecognition of the transfer right asset and the recognition of a financial asset (see paragraph 26). If the binding arrangement and relevant legal framework do not support the recognition of a financial asset, the transfer right asset is not derecognized, and the entity then considers if the asset has been impaired (see paragraph 43). This topic is further illustrated in Illustrative Example 8 (see paragraphs IE42-IE48).

Section F: Measurement of Transfer Expenses from Transactions with Binding Arrangements

F.1 Allocating the Transfer Consideration to Transfer Rights

How should a public sector entity determine a suitable method for estimating the stand-alone consideration of a transfer right?

Generally, an entity would want to explicitly specify in a binding arrangement the amount of resources it is willing to transfer for each transfer right (i.e., the stand-alone consideration is typically specified for each transfer right). In situations where the stand-alone consideration is not explicitly stated, the Standard requires an entity to determine the best estimate of the amounts that it intends to compensate the transfer recipient for satisfying its obligation when negotiating the binding arrangement.

The most suitable method to estimate the stand-alone consideration will depend on the quality and type of information that is available to the entity. For example, the individuals negotiating a binding arrangement may have contemporaneous records detailing how they estimated the stand-alone consideration for specific transfer rights included in the binding arrangement. Other entities may have detailed internal budget information documenting the resources it is willing to pay for each specific transfer right. In other cases, the individuals negotiating a binding arrangement may be using a standard pricing list from the transfer recipient to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each transfer right.

Section G: Multi-Year Arrangements

G.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognize transfer expenses from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (e.g., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements span a longer term, the application of accounting principles is consistent with the accounting for other transfer expense transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in paragraphs 18-20 for transfer expenses arising without binding arrangements, or paragraphs 21-43 for transfer expenses arising from transactions with binding arrangements. The entity shall consider the recognition of a transfer right asset and/or transfer expense independently from the timing of when resources are physically transferred.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 48.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 48, *Transfer Expenses*, to particular transfer expense transactions on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 48.

Scope

IE2. Examples 1-2 illustrate the requirements in paragraphs 3-5 of IPSAS 48 on the determination of whether a transaction is within the scope of IPSAS 48.

Example 1: Transfer Where the Other Party Provides Goods and Services

IE3. An international organization enters a binding arrangement to purchase a vehicle from a dealer for CU30,000.[5] Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A – Vehicle is Provided to the International Organization

IE4. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the international organization.

IE5. The binding arrangement does not give rise to a transfer expense of the international organization, as the international organization directly receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of IPSAS 48. The international organization applies IPSAS 45, *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle and subsequent costs incurred for repairs and maintenance.

Case B – Vehicle is Provided to a National Government

IE6. In this separate scenario, the binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a national government (a third-party beneficiary) rather than to the international organization.

IE7. The binding arrangement gives rise to a transfer expense of the international organization, as the international organization transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. (The vehicle and maintenance services are transferred to the national government, a third-party beneficiary.) The international organization (the transfer provider) applies paragraphs 21-43 of IPSAS 48 in accounting for the transfer, as it arises from a binding arrangement.

Example 2: Research Grants

IE8. A national government enters a binding arrangement with a university whereby the national government will provide the university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health.

[5] In these examples, monetary amounts are denominated in 'currency units' (CU).

Case A—National Government Controls Research

IE9. The binding arrangement includes a requirement that the university will transfer the results of the research to the national government, including rights to any intellectual property and/or patents created.

IE10. The binding arrangement does not give rise to a transfer expense of the national government, as the national government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of IPSAS 48. The national government applies IPSAS 31, *Intangible Assets*, in accounting for the binding arrangement.

Case B—University Controls Research

IE11. The binding arrangement does not require the university to transfer the results of the research to the national government. Rather, the university retains control of the research, including rights to any intellectual property and/or patents created.

IE12. The binding arrangement gives rise to a transfer expense of the national government, as the national government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The national government (the transfer provider) applies paragraphs 21-43 of IPSAS 48 in accounting for the transaction, as it arises from a binding arrangement.

Binding Arrangements and Enforceability

IE13. Examples 3 and 4 illustrate the consideration of binding arrangements and enforceability from paragraphs 10-16 of IPSAS 48.

Example 3: Identifying Whether a Binding Arrangement Exists

IE14. A local government is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake these programs without assistance. The national government decides to transfer CU10 million of surplus funds to the local government to assist with its social programs. The details of the transfer are documented in a “funding agreement.” However, the agreement only results in an obligation for the national government to transfer funds and does not provide the national government with any rights to compel the local government to act in a specific manner.

IE15. Since the agreement does not confer both rights and obligations to the national government, it is not a binding arrangement. The national government shall apply the accounting principles in paragraphs 18-20 to account for the transfer.

Example 4: Agreement for Transfer Subject to Completion of the Appropriations Process

IE16. A national government has a financial year end of December 31. On March 15, 20X2, the national government (the transfer provider) enters into an arrangement with a local government (the transfer recipient) to transfer CU15 million to the local government, to be used to build new infrastructure to reduce air pollution. CU10 million is to be transferred in 20X2, and the remaining CU5 million to be transferred in 20X3. As the reduction of air pollution is a priority for the local government, the local government began to build the new infrastructure as soon as the arrangement was signed.

IE17. The arrangement includes a term that the funding is subject to the completion of an appropriation by parliament. Parliament completed the appropriation for CU10 million in 20X2 on October 31, 20X2 and immediately transferred CU10 million to the local government. By the time the appropriation for the CU10 million was completed, the local government had already satisfied the compliance obligations which related to the CU10 million portion of the total transfer. The appropriation process for the CU5 million was not completed in 20X2 but will be considered in the following year as part of the appropriation process for 20X3.

IE18. In determining the effect of the appropriation on the arrangement, the national government considers substance over form, in accordance with paragraphs 10-16 and AG11-AG25.

Case A –Requirement to Complete the Appropriation Process has Substance

IE19. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires the national government to fund such initiatives. The arrangement states that the funding is subject to the appropriation process being completed by parliament. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.

IE20. The national government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in 20X2 and CU5 million in 20X3) until the appropriation process is completed. Consequently, in 20X2, the national government only recognizes an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of the compliance obligations up to October 31, 20X2. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the national government would instead recognize a transfer right asset of CU10 million.

IE21. On March 31, 20X3, parliament completes the appropriation process for the remaining CU5 million. At this date, the national government applies paragraphs 21-26 of IPSAS 48 to assess the accounting implications for the remaining CU5 million.

Case B – Requirement to Complete the Appropriation Process does not have Substance

IE22. In this scenario, the reduction of air pollution is a priority of both the national and local governments, and there is legislation in place which requires the national government to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government falls within the scope of this legislation, so the national government is required by law to complete the appropriation for the CU15 million transfer.

IE23. The national government concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the national government is required by law to complete the appropriation for the CU15 million transfer. Upon execution of the binding arrangement, the national government applies paragraphs 21-26 of IPSAS 48 in determining when to recognize a transfer right asset or a transfer expense.

Transfer Expenses from Transactions with Binding Arrangements

IE24. Example 5 illustrates the principles regarding identification of transfer rights from paragraph 21 of IPSAS 48.

Example 5: Determining Whether Goods or Services are Distinct

Case A – Goods or Services are not Distinct

IE25. The Department of Health (the Department) enters a binding arrangement with the Department of Public Works (Public Works) for Public Works to build a hospital for the Provincial Government, a third-party beneficiary. Under the terms of the binding arrangement, Public Works has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.

IE26. To determine if the binding arrangement has more than one transfer right, the Department applies paragraphs 21, AG31-AG34 and considers the factors discussed in Implementation Guidance D.1 of IPSAS 48 to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.

IE27. Without the context of the overall arrangement, the rights to have Public Works perform the individual activities such as project management, design, procurement, and construction, could be viewed as distinct rights that can be enforced separately. However, within the context of the binding arrangement, these rights are all highly interdependent (e.g., the construction of the structure can only be performed after completion of the design, engineering, site clearance foundation, and procurement activities) and highly interrelated (i.e., the individual services together result in the building of a hospital.)

IE28. Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph AG33 of IPSAS 48, the Department aggregates these related rights into a single transfer right.

Case B – Goods or Services are Distinct

IE29. A regional government office (Regional Government) enters into a binding arrangement with an IT services agency (the Agency) for the Agency to provide the following to a public sector university in the region (the University, the third-party beneficiary) over a two-year period:

(a) Productivity software for faculty and staff (e.g., word processing and spreadsheet programs);

(b) Website-related services;

(c) Unspecified software updates for security purposes; and

(d) Technical support (online and telephone) to the University's faculty and staff.

IE30. The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new faculty and staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-related services include hosting and maintaining the websites for the University, its departments, and its faculty and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by faculty and staff throughout the two-year period.

IE31. The Regional Government assesses its rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraph 21 of IPSAS 48. In making this assessment, the Regional Government applies the guidance in paragraphs AG31-AG34 of IPSAS 48.

IE32. The Regional Governments observes that:

(a) As noted in paragraph IE30, the Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced;

(b) The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the license and services can be separately enforced; and

(c) The goods or services are neither highly interdependent nor highly interrelated. The Regional Government noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the faculty and staff with the use of the software or websites and does not modify their functionality.

IE33. The Regional Government also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralize the University's purchasing process and potentially negotiate a discount by bundling the license with services.

IE34. On the basis of the above assessment, the Regional Government identifies four transfer rights in the binding arrangement for the following goods or services:

(a) The productivity software;

(b) Website-related services;

(c) Security updates; and

(d) Technical support.

Recognition of Transfer Expenses

IE35. Examples 6-8 illustrate the requirements in paragraphs 22-25 on the overall accounting model for transfer expenses from transactions with binding arrangements:

(a) Example 6 illustrates a scenario where the transfer provider has transferred resources prior to the transfer recipient satisfying its obligations from the binding arrangement;

(b) Example 7 illustrates a scenario where a transfer recipient satisfies its obligations prior to the full transfer of resources; and

(c) Example 8 illustrates the derecognition and impairment of a transfer right asset due to the non-performance by the transfer recipient as discussed in paragraphs 26 and 43 of IPSAS 48.

Example 6: Recognition of a Transfer Right Asset and its Subsequent Derecognition

IE36. The following example expands on the fact pattern presented in Case B of Example 5 and Case A of Example 10 where a regional government office (the Regional Government) entered into a binding arrangement with an IT services agency (the Agency) to provide certain goods and services to a university in the region (the University). In Examples 5 and 10, the Regional Government determined that its transfer rights in the binding arrangement and its allocation of the transfer consideration are as follows:

(a) The productivity software for CU6 million;

(b) Website-related services for CU2 million;

(c) Security updates for CU3 million; and

(d) Technical support for CU1 million.

IE37. The binding arrangement specifies that the transfer of the software occurs and the service period begins upon payment of the entire CU12 million by the Regional Government (i.e., the Regional Government pays upfront). Upon payment of the CU12 million, the Agency transferred the software to the University and began the two-year service period for the website services, security updates and technical support.

IE38. The Regional Government recognizes the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognized based on the nature of each transfer right:

(a) Productivity software – The Regional Government observes that the Agency is only obligated to transfer the productivity software to the University upon payment and is not expected to perform further services such as updating the functionality of the software over the two-year period. Therefore, the transfer right for the software license was extinguished once the software was provided to the University, and CU6 million of the transfer right asset should be expensed at that time;

(b) Website-related services – The Regional Government observes that the website hosting and maintenance services are to be performed for the University continuously throughout the two-year period. Therefore, a reasonable approach to reflect the extinguishment of this transfer right is to evenly derecognize CU2 million of the transfer right asset while recognizing a transfer expense over time during the two-year period (e.g., amortizing CU83,333 into expenses each month over the two-year period);

(c) Security updates, and technical support services – The Regional Government's remaining transfer rights relate to services that are performed on an as-needed basis throughout the two-year period. As it would be overly onerous, if not impossible, to estimate when these services are required, a reasonable approach to reflect the extinguishment of these transfer rights would be to evenly derecognize the CU4 million while recognizing a transfer expense over time during the two-year period. (e.g., amortizing CU166,667 into expenses each month over the two-year period).

Example 7: Recognition of a Transfer Obligation Liability

IE39. A municipal government (the Government) enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide copies of an accounting textbook to the public secondary schools in the city (the Schools, the third-party beneficiaries). Because the number of textbooks required by each school is based on the number of students enrolled in the accounting course, the binding arrangement only specifies that the Government will pay the Publisher CU30 per textbook, and the number of textbooks to be provided will be based on enrollment numbers which will be finalized a month before the beginning of the school year.

IE40. Under the terms of the binding arrangement, the Government will provide the enrollment numbers along with an upfront deposit for 10% of the expected transfer consideration to the Publisher. The Publisher will then provide the textbooks to the Schools at least two weeks before the start of the school year, and the Government will pay the remaining consideration for the textbooks provided within 30 days after the Schools have received the shipments.

IE41. Upon finalization of student enrollment, the enrollment numbers were provided to the Publisher, and 19,800 textbooks were shipped to the Schools. To account for this binding arrangement, the Government applies paragraphs 22-25 of IPSAS 48:

(a) Upon entering the binding arrangement, no accounting occurs as neither party has started to satisfy its obligations in the arrangement.

(b) A month before the school year begins, the Government provides the enrollment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the Government recognizes a transfer right asset of CU59,400 (CU30 × 19,800 books × 10%):

Transfer right asset	CU59,400	
Cash		CU59,400

(c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the textbooks to the Schools, and the Government's right to have the textbooks delivered has been extinguished. The Government derecognizes the transfer right asset of CU59,400 and records the amount as a transfer expense. In addition, the Government also recognizes a transfer obligation liability and a transfer expense for the unpaid consideration of CU534,600 (CU30 × 19,800 books – CU59,400 deposit) based on the terms of the binding arrangement:[6]

[6] It should be noted that IPSAS 48 does not prohibit the Government from using alternative descriptions in its financial statements for the terms 'transfer right asset', 'transfer obligation liability', or 'transfer expense'.

Transfer expense	CU594,000	
Transfer right asset		CU59,400
Transfer obligation liability		CU534,600

Example 8: Derecognition of a Transfer Right Asset Due to Non-Performance

IE42. The Ministry of Health (the Ministry) enters into a binding arrangement with a corporation that operates a number of private clinics in a region (the Corporation). Under the terms of the binding arrangement, the Ministry will provide an upfront payment of CU1 million to the Corporation for the Corporation to operate a vaccination program and administer 10,000 doses of a vaccine to the citizens in the region over the next 12 months. The Corporation is required to provide monthly reports on the number of doses administered and patient information to the Ministry.

IE43. The binding arrangement specifies that if the Corporation stops administrating the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Corporation is required to pay CU100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Corporation has spent the funds on acquiring the vaccinations. (e.g., if the Corporation purchases 10,000 doses immediately upon receipt of the CU1 million, then only administers 5,000 doses and stops the vaccination program, it will be required to return CU500,000 to the Ministry even though the entire CU1 million has been spent.) However, the binding arrangement also specifies that the Corporation is not responsible for the repayment of funds related to vaccines that cannot be administered due to a force majeure event such as war, terrorist attacks, or natural disasters.

Case A – The Corporation Decides to Stop the Vaccination Program

IE44. Upon paying the CU1 million, the Ministry recognizes a transfer right asset for the right to have the Corporation's clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Corporation purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Corporation observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Corporation makes a business decision and informs the Ministry that it will stop administering the vaccines.

IE45. For the vaccines that have been administered, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense for the same amount. For the remaining 9,500 doses, based on the terms of the binding arrangement, the Ministry applies paragraph 26 of IPSAS 48 and:

(a) Derecognize the transfer right asset of CU950,000; and

(b) Recognize a receivable for CU950,000 (CU100 × 9,500 doses). The fact that the Corporation has already spent CU100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of IPSAS 41, *Financial Instruments*—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in IPSAS 41 and is no longer within the scope of IPSAS 48.

Case B – A Force Majeure Event Prevents the Administration of 10,000 Doses

IE46. Similar to Case A, upon paying the CU1 million, the Ministry recognizes the amount as a transfer right asset. In this scenario, the Corporation also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Corporation informed the Ministry of the destruction of the 500 doses but noted that it intends to continue with the vaccination program and administer the remaining 9,000 within 12 months.

IE47. Like Case A, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense of CU50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed in the earthquake. In addition, the Corporation has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.

IE48. Based on the fact pattern in this scenario, the Ministry applies paragraph 43 of IPSAS 48 and considers if the remaining transfer right asset of CU950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a transfer right to have the Corporation's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of CU50,000 in accordance with IPSAS 21 and reduces its transfer right asset to CU900,000.

Modifications to a Binding Arrangement

IE49. Example 9 illustrates the requirements in paragraphs 27-29 of IPSAS 48 on binding arrangement modifications. In addition, Case C of this example illustrates the requirements to estimate variable consideration in paragraphs 35-37 of IPSAS 48, as well as the requirements on changes in transfer consideration in paragraphs 40-42. Cases A, B, and C all build on the fact pattern outlined in paragraphs IE50-IE51 but are each independent from each other.

Example 9: Modifications to a Construction Arrangement

IE50. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct a residential building for a Housing Association (the Association, the third-party beneficiary) on land owned by the Association for promised consideration of CU1 million. In accordance with paragraph 25 of IPSAS 48 and based on the terms of the binding arrangement, Housing accounts for the transfer as a single transfer right extinguished over time as construction of the residential building is being completed.

IE51. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards completion of the residential building. By the end of the first year, Housing assesses that Public Works has completed 60% of the building's construction based on the surveyor's report. Consequently, the expenses recognized by Housing for the first year are CU600,000 (transfer consideration of CU1 million x 60%).

Case A – Modification Resulting in a Cumulative Catch-Up Adjustment to Expenses

IE52. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the transfer consideration increases by CU150,000 and the total transfer consideration after the modification is CU1,150,000. In assessing the modification to the binding arrangement, Housing evaluates paragraph (a) of IPSAS 48 and concludes that the upcoming construction based on the revised floor plan remains a single transfer right rather than any additional transfer rights, because the modification does not result in the acceptance of additional distinct compliance obligations by Public Works or an increase in Public Works' existing compliance obligations.

IE53. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement in accordance with paragraph 29 of IPSAS 48. Based on an updated quantity surveyor's report, Housing updates its measure of progress and estimates that construction of the modified building is 53% complete at the date of modification. As a result, Housing recognizes additional expenses of CU9,500 [(53% complete × CU1,150,000 modified transaction consideration) – CU600,000 expenses recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Case B – Modification Resulting in a New Binding Arrangement

IE54. Continuing with the facts presented in paragraphs IE50-IE51, in the first quarter of the second year, the parties to the arrangement agree to modify the binding arrangement by including additional funding of CU100,000 for the construction of a parking lot to be located next to the residential building.

IE55. Housing determines that this modification results in a separate binding arrangement because:

(a) The construction of the parking lot is a new transfer right, as Housing can enforce its construction separately from the construction of the building. That is, the enforceable right for the construction of the parking lot is a distinct right as noted in paragraph AG32 of IPSAS 48; and

(b) The additional consideration of CU100,000 is intended to reflect the value of the additional transfer right by compensating Public Works for the construction of the parking lot.

IE56. As a result, Housing continues to account for the transfer relating to the construction of the residential building in the manner described in paragraphs IE50-IE51. The CU100,000 transfer relating to the construction of the parking lot is accounted for as a separate binding arrangement.

Case C – Change in Transfer Consideration Due to the Resolution of Uncertain Events

IE57. Modifying the facts presented in paragraphs IE50-IE51, at the inception of the binding arrangement, Housing also agreed to pay a bonus of CU200,000 after construction of the building if it is completed within 24 months. For clarity, this bonus is part of the original terms of the binding arrangement and not a subsequent modification.

IE58. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather conditions and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements. Based on these factors, Housing excluded the CU200,000 bonus from the transfer consideration at the inception of the binding arrangement.

IE59. At the end of the first year, the required regulatory approvals have been obtained and the remaining construction work related primarily to interior work which was not subject to weather conditions. Furthermore, the progress of work completed to date indicated that completion of the building within 24 months is likely. As a result, Housing concludes that payment of the bonus is now probable and adjusts the transfer consideration to CU1,200,000.

IE60. The reassessment of variable consideration is not, in and of itself, a modification of the binding arrangement. Housing accounts for the probable payment of the bonus by applying paragraph 41 of IPSAS 48 and allocates the CU200,000 bonus to the transfer right relating to construction of the building. As 60% of the construction has been completed to date, Housing expenses an additional CU120,000 for the probable bonus payment as a cumulative catch-up adjustment ((CU1.2 million x 60%) – CU600,000 expense recognized to date).

Measurement

IE61. Example 10 expands upon the fact pattern from Case B of Example 5 to illustrate the allocation of transfer consideration to individual transfer rights.

Example 10: Allocation of Transfer Consideration

IE62. Continuing the fact pattern from Case B of Example 5, the regional government office (Regional Government) has concluded that it has four distinct transfer rights in its binding arrangement with the IT services agency (the Agency). As noted in paragraph IE34, these transfer rights relate to providing the University with productivity software, website-related services, security updates, and technical support services over a two-year period.

IE63. When the Regional Government began negotiations with the Agency, it observed that the Agency's published prices would have been as follows, had the software and services been purchased separately for the two-year period: CU6 million for the software, CU4 million for the website-related services, CU3 million for the security updates, and CU2 million for technical support. During negotiations, the Regional Government and the Agency used these published prices as a starting point then agreed to reduce the total consideration for all four deliverables from CU15 million to CU12 million.

Case A – Binding Arrangement Specifies Each Transfer Right's Stand-Alone Consideration

IE64. In this scenario, the binding arrangement specifies that the CU3 million reduction in transfer consideration resulted from a CU2 million discount for website-related services and a CU1 million discount for technical support.

IE65. Applying paragraph AG50, the Regional Government uses the amount of stand-alone consideration and the negotiated discount specified in the binding arrangement for each transfer right and allocates the transfer consideration as follows:

(a) Productivity software: CU6 million;

(b) Website-related services: CU2 million;

(c) Security updates: CU3 million; and

(d) Technical support: CU1 million.

Case B – Binding Arrangement Only Specifies the Total Transfer Consideration

IE66. In this scenario, the Regional Government and the Agency only agreed to the overall CU3 million discount for the entire bundle of the software and the various services, and the binding arrangement does not specify how the CU3 million is to be allocated.

IE67. Applying paragraph AG51, the Regional Government estimates the consideration allocated to each transfer right based on the amounts that were intended to compensate the Agency for the software and the services. As the Agency's published prices were used as the starting point for negotiations, the Regional Government noted that these prices are appropriate proxies for the stand-alone consideration of the software and services. Therefore, one reasonable allocation approach is to proportionately allocate the CU12 million based on each deliverable's published prices.

IE68. Using this approach, the Regional Government allocates the transfer consideration as follows:

(a) Productivity software: CU4.8 million (CU6 million ÷ CU15 million × CU12 million);

(b) Website-related services: CU3.2 million (CU4 million ÷ CU15 million × CU12 million);

(c) Security updates: CU2.4 million (CU3 million ÷ CU15 million × CU12 million); and

(d) Technical support: CU1.6 million (CU2 million ÷ CU15 million × CU12 million).

Application of Principles to Specific Transactions

IE69. Example 11 illustrates the application of paragraphs AG53-AG55 of IPSAS 48 to capital transfers.

Example 11: Capital Transfers

Case A – Transfer Only Relates to the Construction of an Asset

IE70. Entity P enters into a binding arrangement with Entity R. The terms of the binding arrangement are as follows:

(a) Entity P is to provide funding in the form of CU22 million in cash to Entity R, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;

(b) The amount of CU22 million is based on the budgeted construction and related costs. The funding is to be fully provided to Entity R at the beginning of the construction period;

(c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:

(i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.), along with the budgeted costs of these activities;

(ii) Provide detailed progress reports at each significant stage of construction; and

(d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress but any funds that have not been spent on construction are to be returned to Entity P.

IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.

IE72. In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there is no transfer relating to the subsequent use of the building by Entity R. Therefore, upon payment of the CU22 million, Entity P recognizes a transfer right asset for the full amount of CU22 million as Entity R has not yet started construction of the building.

IE73. As Entity R completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity P applies this percentage to the CU22 million to determine the portion of the transfer right asset that should be derecognized and expensed throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

IE74. In this example, the binding arrangement states that:

(a) The funding amount has been increased to CU32 million. This amount is based on the budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year operating period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE75. In this scenario, Entity P concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from IPSAS 48, Entity P has allocated CU22 million to the right for Entity R to construct the building and CU10 million to the right for Entity R to operate the building as a public library for 10 years.

IE76. For the transfer right relating to the construction of the building, as in Case A, Entity P recognizes a transfer right asset of CU22 million upon the transfer of funds. Entity P then derecognizes the CU22 million (and recognizes the amounts as transfer expenses) over the construction period, based on the construction progress as determined by information reported by Entity R.

IE77. For the transfer right relating to the operation of the building as a library, Entity P has determined that this transfer right is extinguished as the building is being operated by Entity R as a library during the 10-year period. Therefore, Entity P recognizes the entire CU10 million as a transfer right asset upon payment. After construction has been completed, as Entity R operates the building as a public library, Entity P derecognizes CU1 million of the transfer right asset per year over the 10-year period and recognizes the amount as a transfer expense.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

IE78. In this scenario, the binding arrangement includes all the terms from Case B, with the addition of the following:

(a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty to Entity P;

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if Entity R has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10^{th} year, it is required to pay CU6 million (repayment of CU1 million of the operating subsidy plus the CU5 million penalty) to Entity P.

IE79. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, Entity P will recognize the CU32 million as a transfer right asset upon the transfer of funds. Subsequently, the CU22 million will be expensed as the building is constructed and the CU10 million will be expensed over the 10-year operating period.

IE80. The additional CU5 million penalty is not recognized by Entity P because its receipt is contingent on Entity R ceasing to operate the building as a public library. Such a contingent asset is not recognized in accordance with IPSAS 19.

Case D – Transfer Only Relates to the Operation of an Asset

IE81. The following scenario is independent from Cases A-C and illustrates the accounting for a transfer without a capital transfer component.

IE82. In this scenario:

(a) Entity R already owns the building;

(b) Under the terms of the binding arrangement, Entity P is required to transfer CU10 million to Entity R to subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity R that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE83. In this scenario, the CU10 million transfer only relates to the right to have Entity R operate the existing building as a public library over a 10-year period. Upon initial payment, Entity P recognizes the CU10 million as a transfer right asset.

IE84. Entity P has determined that the transfer right extinguishes as the building is being operated as a library by Entity R throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, Entity P derecognizes the transfer right asset evenly over the 10-year period and recognizes a transfer expense of CU1 million per year.

COMPARISON WITH GFS

In developing IPSAS 48, *Transfer Expenses*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 48 and GFS will depend on the facts and circumstances of the transfer expense transactions.
- The definition of 'transfer expenses' in IPSAS 48 is drawn from the definition of 'transfers' in GFS but focuses on the perspective of the transfer provider.
- The accounting in IPSAS 48 is driven by the existence of a binding arrangement. In principle, the accounting in GFS is based on, among other considerations, the assessment of whether the transfer is compulsory or voluntary. Both IPSAS 48 and GFS may lead to the same accounting outcome in certain situations.
- IPSAS 48 distinguishes between transfer expenses arising from transactions with binding arrangements (including capital transfers) and transfer expenses from transactions without binding arrangements. GFS distinguishes grants as either current or capital grants, regardless of whether the grant arises from a binding arrangement, so different accounting outcomes could arise in certain situations.
- Under IPSAS 48, an entity recognizes a transfer expense when (or as) its enforceable right to have the transfer recipient satisfy its obligations is extinguished. Under GFS, the timing of expense recognition is based on the type of grant.

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IPSAS 49—RETIREMENT BENEFIT PLANS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 26 *Accounting and Reporting by Retirement Benefit Plans*, published by the International Accounting Standards Board (IASB). Extracts from IAS 26 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 49—RETIREMENT BENEFIT PLANS

History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 49, *Retirement Benefit Plans* was issued in November 2023.

IPSAS 49, RETIREMENT BENEFIT PLANS

CONTENTS

Objective

1. The objective of this Standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans, which provide retirement benefits to public sector employees and other eligible participants.

Scope

2. **A retirement benefit plan that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard.**

3. Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'. This Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan. All other Standards only apply to the financial statements to the extent that they are not superseded by the requirements in this Standard.

4. This Standard deals with accounting and reporting requirements for the plan for all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.

5. This Standard deals with retirement benefits for public sector employees and other participants who are eligible to join the plan. It does not deal with other forms of employment benefits, such as employment termination payments, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security arrangements are also excluded from the scope of this Standard.

6. Retirement benefit plans are normally described as either defined benefit plans or defined contribution plans, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. For the purposes of this Standard, defined benefit plans include hybrid plans, which are retirement benefit plans that contain characteristics of both defined benefit plans and defined contribution plans. References in this Standard to defined benefit plans shall be read as encompassing hybrid plans.

7. Many retirement benefit plans require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.

8. Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

<u>Actuarial present value of promised retirement benefits</u> is the present value of the expected payments by a retirement benefit plan to participants attributable to service, as employees, already rendered.

<u>Defined benefit plans</u> are, for the purposes of this Standard, retirement benefit plans other than defined contribution plans.

<u>Defined contribution obligations</u> are the amounts owed to participants under the terms of a defined contribution plan.

Defined contribution plans are, for the purposes of this Standard, retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

Funding is the transfer of assets to an entity (the retirement benefit plan) separate from the employer/sponsor to meet future obligations for the payment of retirement benefits.

Net assets available for benefits are:

(a) **For defined benefit plans – the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits and, in a hybrid plan, the defined contribution obligation to participants; and**

(b) **For defined contribution plans – the assets of a plan less liabilities other than the defined contribution obligations to participants.**

Participants are the members of a retirement benefit plan and others who are entitled to benefits under the plan.

Retirement benefit obligations are:

(a) **For defined benefit plans – the actuarial present value of promised retirement benefits; and**

(b) **For defined contribution plans – the defined contribution obligations.**

Retirement benefit plans are arrangements whereby an employer/sponsor provides benefits for participants on or after termination of service as employee (either in the form of an annual income and/or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the employer's/sponsor's practices.

Vested benefits are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

Any other 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

10. **For defined benefit plans, retirement benefit obligations owed to participants shall be recognized in the statement of financial position as a provision for the actuarial present value of the promised retirement benefits.**

11. **For defined contribution plans, retirement benefit obligations owed to participants shall be recognized in the statement of financial position as defined contribution obligations.**

Measurement

Valuation of Plan Investments

12. **Retirement benefit plan investments shall be measured at fair value.**

Actuarial Present Value of Promised Retirement Benefits

13. The actuarial present value of promised retirement benefits for defined benefit plans shall be based on the benefits promised under the terms of the plan on service rendered to date using projected salary levels.

14. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent actuarial valuation, updated for any material transactions and material changes in circumstances shall be used.

Presentation and Disclosure

Presentation of Financial Statements

15. **A retirement benefit plan, whether defined benefit or defined contribution, shall present the following:**

    (a) **A statement of financial position;**

    (b) **A statement of changes in net assets available for benefits;**

    (c) **A cash flow statement; and**

    (d) **Notes to the financial statements.**

16. **A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants either by:**

    (a) **Presenting a statement of changes in retirement benefit obligations; or**

    (b) **Disclosing in the notes to the financial statements a reconciliation between the opening and closing retirement benefit obligation balances.**

Financial Statement Content

Statement of Financial Position

17. **The face of the statement of financial position shall include line items that present the following amounts (if applicable and as appropriate, but not limited to):**

    (a) **Plan investments (suitably classified);**

    (b) **Contributions receivable;**

    (c) **Other assets;**

    (d) **Benefits due and payable;**

    (e) **Any other liabilities excluding retirement benefit obligations to participants;**

    (f) **Net assets available for benefits;**

    (g) **Provision for actuarial present value of promised retirement benefits in a defined benefit plan;**

    (h) **Defined contribution obligation to participants; and**

    (i) **Excess or deficit.**

Statement of Changes in Net Assets Available for Benefits

18. **The statement of changes in net assets available for benefits shall present opening and closing balances and include line items that present the following amounts, (if applicable and as appropriate, but not limited to):**

    (a) **Employer/sponsor contributions;**

    (b) **Participant contributions;**

    (c) **Investment income;**

    (d) **Other income;**

(e) **Benefits paid or payable (analyzed, for example, as retirement, death and disability benefits, or lump sum payments);**

(f) **Transfers from and to other plans;**

(g) **Administrative expenses;**

(h) **Other expenses; and**

(i) **Taxes on income.**

Cash Flow Statement

19. **A retirement benefit plan shall prepare a cash flow statement, using the direct method, in accordance with IPSAS 2, *Cash Flow Statements.***

Changes in Retirement Benefit Obligations

20. **Paragraph 16 requires a retirement benefit plan to present information that explains the changes in retirement benefit obligations to participants either as a financial statement or as a reconciliation in the notes to the financial statements.**

21. **This statement or note shall present opening and closing balances and the following information (if applicable and as appropriate, but not limited to):**

(a) **Amendments to the plan (e.g., changes in participant benefits);**

(b) **Changes in the nature of the plan (e.g., a merger with another plan);**

(c) **Participant benefits allocated to defined contribution participant accounts;**

(d) **Net changes to defined benefit participant accrued benefits (e.g., actuarial movements);**

(e) **Employer/sponsor contributions;**

(f) **Participant contributions;**

(g) **Taxes on contributions;**

(h) **Benefits paid; and**

(i) **Administration expenses.**

Disclosure

22. The notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall disclose the following:

(a) A summary of significant accounting policies;

(b) A description of the plan (see paragraph 24) and the effect of any changes in the plan during the period;

(c) The basis for the valuation of all plan assets, including fair value measurement disclosure per class of plan assets as required by the applicable IPSAS;

(d) Details of any single investment exceeding either 5 percent of the net assets available for benefits or 5 percent of any class or type of security;

(e) Details of any investment in the employer/sponsor;

(f) Liabilities other than the provision for actuarial present value of promised retirement benefits or the defined contribution obligation to participants; and

(g) A description of the funding policy, including any obligations by the employer/sponsor to meet any actuarial determined shortfall in assets in a funded retirement benefit plan.

23. For defined benefit plans the following shall also be disclosed in the notes to the financial statements:

(a) The actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits;

(b) A description of the:

(i) Significant actuarial assumptions made; and

(ii) Method used to calculate the actuarial present value of promised retirement benefits;

(c) The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits; and

(d) The date of the actuarial valuation and when the next valuation will be undertaken.

24. A retirement benefit plan's financial statements shall contain a description of the plan. It shall contain the following:

(a) The name(s) of the employer(s)/sponsor(s) and the participant groups covered;

(b) The number of participants receiving benefits and the number of other participants, classified as appropriate;

(c) The type of plan – defined contribution or defined benefit;

(d) A note as to whether participants contribute to the plan;

(e) A description of the retirement benefits promised to participants;

(f) A description of any plan termination terms; and

(g) Changes in items (a) to (f) during the period covered by the financial statements.

Effective Date and Transition

Effective Date

25. **A retirement benefit plan shall apply this Standard for annual financial statements beginning on or after January 1, 2026. Earlier application is permitted. If a retirement benefit plan applies this Standard for a period beginning before January 1, 2026, it shall disclose that fact.**

26. When a retirement benefit plan 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 retirement benefit plan's financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

27. This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Appendix A

Application Guidance

This appendix is an integral part of IPSAS 49.

Objective (see paragraph 1)

AG1. The objective of this Standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans which provide retirement benefits primarily to public sector employees. Some public sector retirement benefit plans may also be open to participants working in the same field in the private sector (e.g., teachers in private sector schools) and are in the scope of this Standard. The aim is to improve the transparency and accountability of public sector retirement benefit plans, by providing information that is useful to users about a public sector retirement benefit plan's obligation in respect of participants' promised retirement benefits.

AG2. This Standard applies to retirement benefit plans established by public sector employers/sponsors to provide retirement benefits (either in the form of an annual income and/or lump sum) primarily to former employees. It does not apply to old-age pensions provided through welfare or social security programs, nor to social security schemes that provide pensions to all citizens.

AG3. The objective of reporting by a defined benefit plan is to provide information about the financial resources and activities of the plan that is useful in assessing the relationship between the accumulation of resources (where the defined benefit plan is funded) and plan benefits over time and, in particular, the extent of any deficits. This objective is usually achieved by providing financial statements that include the following:

(a) The recognition of the actuarial present value of promised retirement benefits (and for hybrid plans, the defined contribution obligation);

(b) Actuarial information about the retirement benefit obligations, including the measurement basis;

(c) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;

(d) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;

(e) A description of the investment policies; and

(f) How a pay-as-you-go[1] retirement benefit plan obligation is funded.

AG4. The objective of reporting by a defined contribution plan is to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements that include the following:

(a) The recognition of the defined contribution obligation;

(b) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;

(c) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and

[1] Many public pension systems operate on a pay-as-you-go basis. This means that pensions paid to current pensioners are typically financed from general taxation and from contributions paid by current participants or sponsors during the same period in which pensions are paid.

(d) A description of the investment policies.

AG5. Given the prevalence and significance of retirement benefit scheme obligations primarily to current and former employees, to achieve the objective of improved transparency and accountability, this Standard requires retirement benefit plans to present, on the face of the statement of financial position as obligations, the estimated present value of promised retirement benefits based on the type of plan, with defined benefit plan obligations and defined contribution plan obligations presented differently.

Scope (see paragraphs 2–8)

AG6. A retirement benefit plan is a reporting entity. That is, it reports separately from the employer of the participants in the plan and separately from the entity that administers the plan (which may be the employer or an outsourced service provider). For example, where an entity administers more than one separate retirement benefit plan, this Standard applies to each of those plans and requires financial statements to be prepared for each retirement benefit plan.

AG7. Retirement benefit plans can also be classified as single employer, multi-employer[2], or state plans[3]. That classification may have an impact on the application of IPSAS 39, *Employee Benefits*, but does not alter the application of this Standard.

AG8. Many public sector entities provide retirement benefits for their employees by way of a multi-employer plan or state plan. Multi-employer plans and state plans are defined in IPSAS 39. Multi-employer plans and state plans can be either defined benefit plans or defined contribution plans. However, for entities providing defined benefit pensions for employees using either a multi-employer or state plan, IPSAS 39 allows entities to use defined contribution accounting if there is insufficient information to use defined benefit accounting. This has the potential to underestimate the obligation owed to employees when that entity applies IPSAS 39. Therefore, the full obligation may not be reported in the employer's financial statements.

AG9. Some retirement benefit plans have sponsors other than employers; this Standard also applies to the financial statements of such plans.

AG10. Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired obligations as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.

AG11. Some retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this Standard to describe such parties regardless of whether a trust has been formed. Many public sector retirement benefit plans are unfunded, operating on a pay-as-you-go basis whereby benefits are payable from general taxation.

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[2] Multi-employer plans are defined in IPSAS 39 as defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) Pool the assets contributed by various entities that are not under common control; and

(b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

[3] State plans are defined in IPSAS 39 as plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

Definitions (see paragraph 9)

AG12. For the purposes of this Standard, defined benefit plans are those plans which do not meet the definition of a defined contribution plan. This includes hybrid plans, which are retirement benefit plans that contain characteristics of both defined benefit plans and defined contribution plans. A defined benefit plan is a retirement benefit plan under which amounts to be paid as retirement benefits are typically determined by reference to a formula usually based on participants' earnings and/or years of service. The extent of the obligation for future retirement benefits is determined by the measurement of the promised retirement benefits and not by the level of contributions. Defined benefit plans might be funded, through plan investments, and where a shortfall arises, the employer/sponsor has a legal or constructive obligation to provide for the additional promised benefits. For unfunded plans, such as those established on a pay-as-you-go basis, all benefits payable will be financed from, for example, general taxation.

AG13. A defined benefit plan usually needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels by employers/sponsors. Because the employer/sponsor is obligated to provide for any shortfall of retirement benefits over plan investments based on these assumptions, any investment risk typically falls on the employer/sponsor.

AG14. The retirement benefit plan accounts for its defined benefit obligation at the present value of the payments expected to settle promised retirement benefits, which it bases on the calculations performed periodically by an actuary. The retirement benefit plan accounts for the plan assets (if any) separately.

AG15. Defined contribution plans differ from defined benefit plans in that the amounts to be paid as retirement benefits are determined by the amount of contributions to a participant's plan together with investment earnings. The extent of the obligation for future retirement benefits is~~,~~ therefore~~,~~ capped by the size of the fund at the reporting date.

AG16. Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer/sponsor, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's/sponsor's obligation is usually discharged by contributions to the fund. Therefore, any investment risk typically falls on the participant. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.

Recognition (see paragraphs 10 and 11)

AG17. This Standard requires the obligations to participants to be recognized and presented on the face of the statement of financial position. In a defined benefit plan, the obligation is a provision (a liability of uncertain timing or amount) called "the actuarial present value of promised retirement benefits"; it will generally be calculated by an actuary in accordance with the rules of the plan (e.g., qualifying service and salary) using actuarial assumptions. A hybrid plan will also have defined contribution obligations (see paragraphs 11 and AG18). The responsibility for making good any deficit between the value of any plan assets and the promised retirement benefit obligations may lie with the employer/sponsor of the plan, or with the appropriate level of government, or, in a shared funding arrangement, one or more of the employers/sponsors, depending on the rules of the retirement benefit plan and/or legislation.

AG18. In a defined contribution plan, the amount to be recognized for obligations to participants equate to the net assets less, if required by the rules of the plan or other regulations, any retention for specified purposes (e.g., investment risks).

Measurement (see paragraphs 12–14)

Valuation of Plan Investments

AG19. The term 'plan assets' is an overarching term for all assets of the retirement benefit plan. Plan investments are a subset of plan assets and are those assets that are required specifically for their investment potential to fund payment of retirement benefit obligations.

AG20. This Standard requires all plan investments to be measured at fair value. Any plan investments that are financial instruments shall be measured at fair value in accordance with IPSAS 41, *Financial Instruments.* Other plan investments shall be measured at fair value in accordance with the applicable IPSAS (e.g., IPSAS 16, *Investment Property*). Other plan assets shall be measured in accordance with the applicable IPSAS.

Actuarial Present Value of Promised Retirement Benefits

AG21. The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. This obligation reflects the expectation of future benefits determined using actuarial methods, and projected salaries are used because benefits are measured in the future against salaries applicable at the point the benefits become due.

AG22. Actuarial valuations are not always obtained annually; some retirement benefit plan regulations might require actuarial valuations every three or five years, for example. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is likely to be suitable as a starting point for the current year's valuation. This requires the most recent actuarial valuation to be updated for any material transactions and other material changes in circumstances (including changes in market prices, interest rates, and expected inflation rate of projected salaries) up to the end of the reporting period.

AG23. Because a retirement benefit plan may have different risks and assumptions when compared to the employer/sponsor, an actuarial valuation may result in different valuations of the same defined benefit obligations for the retirement benefit plan and for the employer/sponsor. For example, the discount rate applied by the employer/sponsor may differ from that of the retirement benefit plan as a result of different risks related to the employer/sponsor compared to the plan. When the actuarial valuation performed for the employer/sponsor is used as a base, any necessary adjustments shall be made for determining the obligation of the retirement benefit plan.

Applicability of Other IPSAS

AG24. Unless specifically overwritten by this Standard, all other IPSAS apply to the financial statements of retirement benefit plans when applicable. For example, if a retirement benefit plan is required or elects to make their approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* shall also apply.

Presentation and Disclosure (see paragraphs 15–24)

Presentation of Financial Statements

AG25. This Standard overrides the requirements of IPSAS 1, *Presentation of Financial Statements* by setting out in paragraphs 15 and 16 which financial statements a retirement benefit plan shall present.

Statement of Financial Position

AG26. Plan investments are to be shown on the face of the statement of financial position and suitably classified. This requires grouping assets of a similar nature – for example, as equities, fixed income securities, and investment funds.

AG27. The statement of financial position is required to present the actuarial present value of promised retirement benefits and defined contribution obligation to plan participants below net assets available for benefits. Inclusion of this obligation(s) addresses the principal objective of this Standard to increase the transparency and accountability about retirement benefit plan obligations of public sector entities to participants.

AG28. This line item differs from the presentation of liabilities for benefits due and payable to participants (if applicable). Liabilities for benefits due and payable to participants are shown above the net assets available for benefits and only include those amounts that are immediately payable. For example, it may represent a monthly defined benefit pension payment yet to be paid or a withdrawal from a defined contribution plan requested by the participant that is yet to be paid.

Statement of Changes in Net Assets Available for Benefits

AG29. The line items shown in the statement of changes in net assets available for benefits are only those that are directly attributable to the plan. The nature of those items will largely depend on the terms of a plan. For example, some retirement benefit plans may specify that some administrative costs (such as the salaries of plan's investment managers) are paid out of investment income.

Statement of Changes in Retirement Benefit Obligations or Disclosure of Reconciliation Between the Opening and Closing Retirement Benefit Obligation Balances

AG30. The structure of a retirement benefit plan – such as whether it is a defined benefit plan or defined contribution plan and whether it is funded or pay-as-you-go – may determine how contributions and benefits are accounted for.

AG31. Some retirement benefit plans account for contributions and benefits as revenue and expenses respectively, while others account for contributions and benefits as changes in liabilities to participants. In some cases, the structure of retirement benefit plans might mean that a mixed approach is taken to accounting for contributions and benefits. Depending on the circumstances, the line items for contributions and benefits paid may need to be shown differently on the face of the statement of changes in retirement benefit obligations (see the Illustrative Examples) or in the disclosure of the reconciliation between the opening and closing retirement benefit obligation balances.

Cash Flow Statement

AG32. When preparing the cash flow statement, a retirement benefit plan shall consider the requirements and guidance in IPSAS 2, *Cash Flow Statements.* This Standard requires cash flows to be reported using the direct method, because the structure of the other financial statements makes it unlikely that an annual surplus or deficit will be reported, making the indirect method impracticable.

AG33. Individual retirement benefit plans may treat certain transactions differently. For example, contributions may be revenue or a liability to the participant, depending on the terms of the retirement benefit plan. Therefore, the classification of transactions as operating, investing, or financing cash flows may differ between retirement benefit plans. However, the classification adopted shall be applied consistently by a retirement benefit plan.

Disclosure

AG34. This Standard requires retirement benefit plans to provide a description of the funding policy. This description shall include information about how a retirement benefit plan intends to fund the payment of promised benefits, including the management of any funding deficit which may exist at the reporting date.

AG35. Information about how a plan intends to fund benefit payments may provide useful information to some users about the maturity of the retirement benefit plan. Participants are interested in the activities of the plan since they directly affect the level of their future benefits. Participants are interested in knowing whether contributions have been received and proper control has been exercised to protect their rights. An employer/sponsor is interested in the efficient and fair operation of the plan.

AG36. Information provided in disclosures shall also reveal whether a retirement benefit plan is sufficiently funded. If the retirement benefit plan is unfunded or in deficit, the description of the funding policy shall provide information about how amounts due for promised retirement benefits will be satisfied – for example, by participant contributions or by funds from a central government.

Effective Date and Transition (see paragraphs 25–27)

AG37. This Standard shall be applied prospectively. However, when a retirement benefit plan that has used another international or national accounting standard dealing with retirement benefit plans first applies this Standard, it shall provide restated comparative financial statements in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 39, *Employee Benefits*

Paragraph 3 is amended. Paragraph 176D is added. New text is underlined and deleted text is struck through.

Scope

…

3. This Standard does not deal with reporting by ~~employee~~ retirement benefit plans (see ~~the relevant international or national accounting standard dealing with employee retirement benefit plans~~ IPSAS 49, *Retirement Benefit Plans*). This Standard does not deal with benefits provided by composite social security programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities.

…

Effective Date

176D. **Paragraph 3 was amended by IPSAS 49, *Retirement Benefit Plans* issued in October, 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact.**

Amendments to IPSAS 41, *Financial Instruments*

Paragraph AG2 is amended. Paragraph 156H is added. New text is underlined and deleted text is struck through.

Scope

…

AG2. This Standard does not change the requirements relating to retirement benefit plans for public sector employees and other eligible participants that comply with ~~the relevant international or national accounting standard on accounting and reporting by retirement benefit plans~~ IPSAS 49, *Retirement Benefit Plans* and royalty agreements based on the volume of sales or service revenues that are accounted for under IPSAS 9, *Revenue from Exchange Transactions*.

…

Effective Date

156H. **Paragraph AG2 was amended by IPSAS 49, *Retirement Benefit Plans* issued in October, 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 49.

Objective (see paragraph 1)

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 49, *Retirement Benefit Plans*. This Standard is adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* issued by the International Accounting Standards Board (IASB). This Basis for Conclusions outlines those areas where the IPSASB decided to propose requirements for retirement benefit plans in the public sector that differ from those set out in IAS 26.

Background

BC2. The IPSASB's *Strategy and Work Plan 2019-2023* identified a project to develop an IPSAS aligned with IAS 26 as part of Theme B – 'Maintaining alignment with IFRS' which then led to the development of this Standard. The IPSASB approved the Project Brief for this Standard at its March 2021 meeting.

BC3. Multi-employer plans and state plans are common in the public sector. Because IPSAS 39, *Employee Benefits* allows employers contributing to these types of plans to report on a defined contribution basis, even if they are a defined benefit plan, the IPSASB was of the view that there may be a lack of transparent reporting of these plans' obligations for retirement benefits. The IPSASB noted that, while IPSAS 39 was aligned with IAS 19, *Employee Benefits*, there was no IPSAS equivalent to IAS 26.

BC4. IAS 26 was issued in January 1987 and its objective is to provide the accounting and reporting requirements for arrangements through which an entity provides retirement benefits (for example, an annual income) to employees after they terminate from service. Prior to the issuance of this Standard there were no corresponding requirements in IPSAS for the accounting by retirement benefit plans.

BC5. Therefore, the IPSASB considered it was important to develop a Standard which would require retirement benefit plans to provide a more complete view of the public sector retirement benefit obligation for accountability purposes. Further, because governments are often responsible for funding the deficits of defined benefit plans, this information also supports governments in making fiscal decisions about whether continuing to provide defined benefit pensions (in particular) is sustainable; making such decisions is challenging without easy access to the expected cost of providing retirement benefits in the form of an obligation on the plan's statement of financial position. The IPSASB noted that this Standard complements the requirements in IPSAS 39, and therefore provides the desired information on public sector retirement benefit obligations for each retirement benefit plan that reports under this Standard.

BC6. The IPSASB discussed whether relevant entities should consolidate a retirement benefit plan into a greater economic entity, based on the concepts in IPSAS 35, *Consolidated Financial Statements.* The IPSASB concluded that where the greater economic entity does not control the retirement benefit plan, consolidation under IPSAS 35 is not appropriate. When consolidation is not appropriate, the IPSASB confirmed the principles in IPSAS 39 provide the appropriate information about the totality of public sector retirement benefit obligations in the greater economic entity.

BC7. When discussing the Project Brief, the IPSASB noted that the age of IAS 26 means it is out of step with some of the developments in financial reporting since 1987. The IPSASB concluded that it was likely that some of the options available in IAS 26 would be inappropriate for public sector financial reporting and decided to proceed on the basis that the project would be an adaptation project rather than an alignment project.

BC8. The IPSASB also considered whether the title of this Standard should differ from IAS 26 and decided that the title should be shortened to *Retirement Benefit Plans*.

Scope (see paragraphs 2–8)

BC9. Respondents to Exposure Draft 82, *Retirement Benefit Plans* proposed better aligning the requirements of IPSAS 49 with the requirements in other IPSAS. For example, some respondents suggested aligning the definitions and requirements of IPSAS 49 with those in IPSAS 39, arguing that aligning definitions and requirements would better ensure that key measurements such as the actuarial present value of promised retirement benefits would be consistent and enable balances presented under IPSAS 49 to be consolidated into the employer/sponsor's financial statements when applying IPSAS 35.

BC10. The IPSASB concluded alignment between IPSAS 49 and IPSAS 39 was not necessary for the following reasons:

- Financial information presented using IPSAS 49 provides different information and satisfies different user needs than financial information presented using IPSAS 39. The primary users of financial information provided by IPSAS 49 are participants of the plan. They require information that supports their ability to understand if the retirement benefit plan can fund their retirement. The primary users of the financial information provided by IPSAS 39 are users of the financial information of the employer/sponsor. The financial information provided by IPSAS 39 makes up only a portion in the broader set of the employer's/sponsor's financial statements. These users are concerned with the employer's/sponsor's liability to fund the plan and require the ability to compare that retirement benefit liability with similar entities. The IPSASB concluded different user needs warrant the need for different measurements.
- The requirements of what an employer/sponsor shall include in its financial statements related to a retirement benefit plan are stated in IPSAS 39. IPSAS 49 provides guidance on how to present and measure this balance in a set of financial statements for the retirement benefit plan. Since the retirement benefit liability is already presented in the financial statements of the employer/sponsor, the IPSASB concluded an employer/sponsor is not expected to apply the requirements of this Standard as any pension obligations are captured in its financial statements when applying the requirements of IPSAS 39.

BC11. The IPSASB also discussed whether the scope of this Standard should be expanded to include benefit plans that have similar characteristics to retirement benefit plans but provide benefits more generally to meet societal needs other than solely retirement benefits to public sector employees and other participants who are eligible to join the plan (see paragraph 5 of this Standard). The IPSASB decided to retain the scope of IAS 26 because the primary purpose of the Standard is to provide guidance for accounting and reporting by retirement benefit plans in the public sector. The IPSASB noted that, for plans that have characteristics similar to retirement benefit plans, application of relevant parts of this Standard by analogy could be appropriate under paragraphs 12-15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. Other schemes may have characteristics that make application of relevant parts of IPSAS 39 or IPSAS 42, *Social Benefits* appropriate.

BC12. The IPSASB also agreed that the retirement benefit plan is the reporting entity; this is consistent with IAS 26. Therefore, entities that administer multiple retirement benefit plans must prepare financial statements for each individual plan.

Definitions (see paragraph 9)

BC13. The IPSASB noted that 'defined benefit plans' and 'defined contribution plans' are already defined in IPSAS 39, *Employee Benefits* but with different definitions to those in IAS 26 and discussed whether the IPSAS 39 definitions should be used in this Standard. The IPSASB decided that the IPSAS 39 definitions were not appropriate because they were written from the perspective of an employer contributing to a retirement benefit plan, whereas the IAS 26 definitions are written from a retirement benefit plan's perspective.

BC14. The IPSASB decided to retain the IAS 26 definition for 'defined contribution plans', with additional guidance noting that for a defined contribution plan it is the participants in the plan who bear the principal investment risk.

BC15. The IPSASB did, however, decide to amend the IAS 26 definition for 'defined benefit plans' from:

"Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on participants' earnings and/or years of service"; to

"Defined benefit plans are retirement benefit plans other than defined contribution plans".

BC16. The IPSASB made this change to ensure that all retirement benefit plans that did not meet the definition of a defined contribution plan would be accounted for as a defined benefit plan. It was also decided to include Application Guidance to help distinguish between a defined benefit plan and a defined contribution plan. For example, the guidance indicates that for a defined benefit plan it is the employer/sponsor that bears the principal investment risk.

BC17. The IPSASB considered whether the IAS 26 definition for the 'actuarial present value of promised retirement benefits' should be replaced with the IPSAS 39 definition for the 'present value of defined benefit obligations'. The IPSASB noted that the definitions were written from different perspectives and that the plan perspective is appropriate in this Standard, even if the different perspectives may result in different valuations for fundamentally the same obligation (refer to BC18 below). Therefore, it was decided to retain the IAS 26 definition.

Recognition (see paragraphs 10–11)

BC18. The IPSASB noted that IAS 26 provides three options for defined benefit plans to present information on the actuarial present value of promised retirement benefits: recognition on the face of the financial statements, presentation in the notes to the financial statements, or by reference to an accompanying actuarial report. The IPSASB considers that the actuarial present value of promised retirement benefits is key information and decided that this information shall be recognized on the face of the statement of financial position as a separate provision. The IAS 26 options permitting only disclosure of this information in notes to the financial statements, or in a separate actuarial report, are therefore not included in this IPSAS.

BC19. The IPSASB also noted that IAS 26 is silent on whether or where retirement benefit obligations for defined contribution plans should be recognized and presented in the financial statements of a retirement benefit plan. To improve the accountability and transparency of such plans, the IPSASB decided that defined contribution obligations owed to participants under the terms of the plan shall also be recognized and presented on the face of the statement of financial position. In contrast, the employer's/sponsor's financial statements should not present an obligation related to contributions when there is no liability for unpaid contributions. There are differing views on the precise nature of defined contribution obligations; are they liabilities of uncertain timing and/or amount (and thus be accounted for as provisions); potential distribution to owners; or are they akin to stakeholder' equity? The IPSASB is of the view that the nature of defined contribution obligations may be linked to the design of the defined contribution plans and decided, therefore, not to describe them as any particular element of financial statements.

Measurement (see paragraphs 12–14)

Valuation of Plan Investments

BC20. IAS 26 requires plan investments to be measured at fair value. However, the IPSASB noted that IAS 26 seems to allow plan investments to be measured at another value if an estimate of fair value is not possible.

The IPSASB agreed that fair value measurement guidance in other IPSAS is sufficient and decided that plan investments shall be measured at fair value using the guidance in other IPSAS as relevant to the type of plan investments.

Actuarial Present Value of Promised Retirement Benefits

BC21. The IPSASB noted that IAS 26 allows the actuarial present value of promised retirement benefits to be measured using either current salaries or projected salaries. The IPSASB discussed whether it was appropriate to keep both options in this Standard. The IPSASB decided that the option to use current salaries should be removed from this Standard because it has the potential to understate the actuarial present value of promised retirement benefits. Plan participants are interested in the sustainability of the retirement benefit plan and therefore require a best estimate of the present value of future obligations using projected salaries. It was also noted that using projected salaries is consistent with IPSAS 39, under which the present value of a defined benefit obligation is required to be measured using projected salaries. Further, using projected salaries is consistent with the objective of this Standard to increase the transparency and accountability of retirement benefit plans for retirement benefit obligations owing to participants. The IPSASB noted that the benefit of providing an estimate based on projected salaries would outweigh any cost implication to the retirement benefit plan.

BC22. The IPSASB considered including a practical expedient whereby, under certain circumstances, the trustees of a retirement benefit plan could use the employer's/sponsor's actuarial valuation to measure the actuarial valuation of promised retirement benefits for the purposes of this Standard. The IPSASB noted the use of such a practical expedient in some jurisdictions, but also noted that in other jurisdictions regulatory requirements may result in a different measurement for the same obligation, due to, amongst others, the different discount rates applied by actuaries and the impact of collective versus individual participant valuation, especially prevalent in multi-employer plans. The IPSASB is also of the view that if the trustees of a retirement benefit plan considered the IPSAS 39 measurement was appropriate for retirement benefit plan purposes, e.g., there are no material differences in approach, assumptions, or discount rates applied by actuaries, they may use it without needing a practical expedient in this Standard. Therefore, it was decided not to include such a practical expedient.

Classification of Contributions and Benefits

BC23. The IPSASB discussed whether contributions and benefits should be classified as any particular element as defined in the Conceptual Framework. The IPSASB noted that in some jurisdictions contributions are considered to be revenue whereas other jurisdictions are of the view that contributions give rise to an obligation. Similarly, benefits may be considered expenses or a reduction in that obligation depending on the jurisdiction.

BC24. The IPSASB decided that classifying contributions and benefits is dependent on the structure and regulations of a particular retirement benefit plan. The IPSASB acknowledged that there are many different types of retirement benefit plans, and each will have its own nuances regarding structure and regulations. Therefore, because this Standard applies to all types of plans, the IPSASB decided not to classify contributions and benefits as particular elements but instead to leave the classification in financial statements to the judgement of preparers with knowledge of the plan structure and regulations.

Presentation of Financial Statements (see paragraphs 15–21)

BC25. The IPSASB noted that IAS 26 is not definitive about which financial statements a retirement benefit plan should present and decided that this Standard would specify which financial statements are required.

BC26. The IPSASB noted that users of a retirement benefit plan's financial statements are mostly interested in a statement which shows a reconciliation of the opening and closing balances of the net assets available for benefits, which shows the inflows and outflows of the retirement benefit plan and decided that a statement of financial performance would not be required. A reconciliation of the annual performance of the retirement benefit plan is presented in the statement of changes in net assets available for benefits, which does bear some resemblance to a statement of financial performance but should not be considered as such.

BC27. The IPSASB noted that it was unclear whether IAS 26 required a retirement benefit plan to present a cash flow statement. The IPSASB was of the view that retirement benefit plans should include a cash flow statement because it provides important information for users. Therefore, the IPSASB decided that this Standard would specify that a retirement benefit plan shall present a cash flow statement. The cash flow statement shall be prepared using the direct method according to IPSAS 2, *Cash flow Statements*, because this Standard does not require a statement of financial performance. Therefore, it is not suitable to prepare a cash flow statement using the indirect method, because there is no surplus or deficit to adjust for non-cash items to derive net cash flows from operating activities.

Disclosure (see paragraphs 22–24)

BC28. The IPSASB reviewed the IAS 26 disclosure on the valuation of plan assets in, and the funding of, a retirement benefit plan, and agreed with respondents that more information would be useful to the decision-making needs of users of the financial statements, Therefore, the IPSASB agreed to expand the disclosure requirements in the notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, reflected in paragraph 22, as follows:

"(c) The basis for the valuation of all plan assets, including fair value measurement disclosure per class of plan assets as required by the applicable IPSAS"; and

"(g) A description of the funding policy, including any obligations by the employer/sponsor to meet any actuarial determined shortfall in assets in a funded retirement benefit plan".

BC29. The IPSASB further agreed to enhance the application guidance in AG36 regarding the inclusion of disclosure on the funding policy of the retirement benefit plan by referring, for example, to the contributions expected from participants, central government, or another entity.

Effective Date and Transition (see paragraphs 25–27)

BC30. The IPSASB considered that the key information in the General Purpose Financial Statements of a retirement benefit plan comprises the obligation of future benefits, the extent of any deficit, and the change in those figures over the reporting period. The IPSASB concluded that requiring the application of the guidance on the prospective basis would best serve the needs of users of retirement benefit plan information because it enables the retirement benefit plan to provide the information sooner than if retrospective application were required. Prospective application will require a retirement benefit plan to prepare an opening and closing Statement of Financial Position, and other Statements only for the year of adoption. This more quickly achieves one of the project objectives, which was to provide users with a more accurate view of the retirement benefit obligations of public sector entities. Retrospective application would require additional historical information and the key information would not be available as quickly as under prospective application.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 49.

Factors to consider in determining whether contributions and benefits are revenue and expenses or liabilities and a reduction in liabilities.

Q: How do preparers determine the accounting treatment of contribution and benefits?

A: There may be many different retirement benefit plan structures and frameworks even within the same jurisdiction, as well as across jurisdictions. In order to determine the economic substance of the arrangements in each plan, and therefore the most appropriate accounting treatment, the preparers of the retirement benefit plan financial statements should exercise professional judgment in making this determination and consider the following factors:

(a) Characteristics of the plan;

(b) Structure of the plan;

(c) Regulatory environment;

(d) Legislative environment;

(e) Purpose of the contributions;

(f) Types of benefits provided; and

(g) The type of other expenses borne by the plan.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 49.

The following illustrative examples (IE) provide examples of styles and formats for retirement benefit plans to present financial statements that are consistent with IPSAS 49. These IEs are not comprehensive nor mandatory. Other styles and formats are acceptable if they meet the requirements of this IPSAS.

These IEs show three potential ways in which the required financial statements can be presented, depending on the judgment made about how to present contributions and benefits. The different line items in the IEs are illustrative.

IE 1 relates to a *defined benefit plan* where the contributions and benefits are treated as revenue and expenses and all cash flows are treated as operating cash flows.

IE 2 relates to a *defined benefit plan* where the contributions are treated as a liability and the benefits as a reduction in that liability. Regarding cash flows, returns on investments, administrative payments, investment payments, and taxes paid on investment income are operating cash flows. Purchases and sales of plan investments are investing activities. Contributions and benefits, transfers to and from other plans, and income tax on contributions are financing activities.

IE 3 relates to a *defined contribution plan* where the contributions and benefits are treated as revenue and expenses. Regarding cash flows, return on investments, administrative payments, contributions received, benefits paid (and associated receipts and payments), and income taxes are operating activities. Purchases and sales of plan investments are investing activities.

Statement of financial position **As at December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Assets			
Cash and cash equivalents	X	X	X
Plan investments (suitably classified)	X	X	X
Accrued interest and dividends receivable	X	X	X
Contributions receivable	X	X	X
Other assets	X	X	X
Total Assets	**X**	**X**	**X**

Statement of financial position **As at December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Liabilities			
Payables	X	X	X
Benefits due and payable	X	X	X
Income tax payable	X	X	X
Other liabilities	X	X	X
Total liabilities excluding benefit obligations to participants	**X**	**X**	**X**
Net assets available for retirement benefits	**X**	**X**	**X**
Provision for the actuarial present value of promised retirement benefits	**X**	**X**	**N/A**
Defined contribution obligation	**N/A**[4]	**N/A**[5]	**X**
Other reserves	X	X	X
Excess or deficit of funding	**X**	**X**	**X**

4 If this was a hybrid plan there would also be an amount for defined contribution obligations

5 As for footnote 4

Statement of changes in net assets available for benefits **For the year ended December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Net assets available for benefits (beginning of the year)	**X**	**X**	**X**
Investment earnings			
Net change in fair value of plan investments	X	X	X
Interest revenue	X	X	X
Investment revenue	X	X	X
Dividend revenue	X	X	X
Other revenue	X	X	X
	X	**X**	**X**
Contributions			
Employer	X	X	X
Participant	X	X	X
Benefits accrued	X	X	N/A
Funding from sponsor[6]	X	X	X
Total increase in net assets available for benefits	**X**	**X**	**X**
Benefits paid	X	X	X
Investment related expenses	X	X	X
Operational and administrative expenses	X	X	X
Other expenses	X	X	X
Tax on income	X	X	X
Total decrease in net assets available for benefits	**X**	**X**	**X**
Transfers to and from other plans	X	X	X
Net increase/decrease in assets available for benefits	**X**	**X**	**X**
Net assets available for benefits (end of the year)	**X**	**X**	**X**

6 This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

Statement of changes in retirement benefit obligations **For the year ended December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Retirement benefit obligations (beginning of the year)	**X**	**X**	**X**
Contributions			
Employer	N/A	X	X
Participant	N/A	X	X
Funding from sponsor	N/A	X	X
Transfers from other plans	X	X	X
Changes in actuarial assumptions	X	X	N/A
Benefits accrued	X	X	N/A
Total increase in retirement benefit obligations	**X**	**X**	**X**
Benefits paid	X	X	X
Transfers to other plans	X	X	X
Tax on contributions	N/A	X	X
Total decrease in retirement benefit obligations	**X**	**X**	**X**
Retirement benefit obligations (end of the year)	**X**	**X**	**X**

NOTE: As an alternative to the statement of changes in retirement benefit obligations, this information can be provided in the notes to the financial statements.

Cash flow statement **For the year ended December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Cash flows from operating activities			
Receipts			
Sale of plan investment	X	N/A	N/A
Interest received	X	X	X
Dividends received	X	X	X
Other receipts	X	X	X
Employer contributions received	X	N/A	X
Participant contributions received	X	N/A	X
Funding received from sponsor[7]	X	N/A	X
Payments			
Purchase of plan investments	X	N/A	N/A
Investment related payments	X	X	N/A
Participant benefits paid	X	N/A	X
Operational and administrative payments	X	X	X
Other payments	X	X	X
Tax paid on contributions	X	N/A	X
Tax paid on investments	X	X	X
Transfers to and from other plans	X	N/A	N/A
Net cash inflows (outflows) from operating activities	**X**	**X**	**X**
Cash flows from investing activities			
Purchase of plan investments	N/A	(X)	(X)
Sale of plan investment	N/A	X	X
Investment related expenses	N/A	N/A	X
Transfers to and from other plans	N/A	N/A	X
Net cash inflows (outflows) from investing activities	**N/A**	**X**	**X**

[7] This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

Cash flow statement **For the year ended December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Cash flows from financing activities			
Employer contributions received	N/A	X	N/A
Participant contributions received	N/A	X	N/A
Funding received from sponsor[8]	N/A	X	N/A
Participant benefits paid	N/A	X	N/A
Transfers to and from other plans	N/A	X	N/A
Tax paid on contributions	N/A	(X)	N/A
Net cash inflows (outflows) from financing activities	**N/A**	**X**	**N/A**
Net increase (decrease) in cash and cash equivalents	**X**	**X**	**X**
Cash and cash equivalents at the beginning of the year	X	X	X
Cash and cash equivalents at the end of the year	**X**	**X**	**X**

8 This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

COMPARISON WITH IAS 26

IPSAS 49, *Retirement Benefit Plans* is drawn from IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, including amendments up to February 2021.

The main differences between IPSAS 49 and IAS 26 are as follows:

- IPSAS 49 has different definitions, such as defined benefit plans and net assets available for benefits;
- IPSAS 49 requires the use of projected salaries only when measuring the actuarial present value of promised retirement benefits, while IAS 26 permits a choice of using current salary levels or projected salary levels; and
- IPSAS 49 requires the presentation of a cash flow statement for retirement benefit plans, while IAS 26 does not.

COMPARISON WITH GFS

In developing IPSAS 49, *Retirement Benefit Plans*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities with GFS are as follows:

- IPSAS 49 permits contributions to the retirement benefit plans to be accounted for as either revenue or a liability to the participant, depending on the terms of the plan, and GFS also permits this depending on the type of scheme.
- IPSAS 49 requires retirement benefit obligations to be recognized in the statement of financial position. Similarly, GFS also requires pension entitlements to be presented on the balance sheet.

INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD UNDER THE CASH BASIS OF ACCOUNTING—ISSUED IN 2017

The International Public Sector Accounting Standards Board (the IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSAS). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSAS 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 dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting.

The adoption of IPSAS 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 considers that this Standard is an important step forward in improving the consistency and comparability of financial reporting under the cash basis of accounting and encourages the adoption of this Standard. Financial statements should be described as complying with this IPSAS only if they comply with all the requirements of Part 1 of this IPSAS.

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSAS prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING—ISSUED IN 2017

Structure of the Standard

This Standard comprises two parts:

- Part 1 is mandatory. It sets out the requirements which are applicable to all public sector entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements in this part of the Standard must be complied with by public sector entities which claim to be reporting in accordance with the International Public Sector Accounting Standard *Financial Reporting under the Cash Basis of Accounting*.
- Part 2 is not mandatory. It identifies additional accounting policies and disclosures that a public sector entity is encouraged to adopt to enhance the usefulness of its financial statements for accountability and decision-making purposes and to support its transition to the accrual basis of financial reporting and adoption of accrual IPSAS.
- The Cash Basis IPSAS was issued in January 2003. The IPSAS was updated with additional requirements and encouragements dealing with the presentation of budget information in 2006 and external assistance in 2007.
- In 2017 a revised Cash Basis IPSAS was issued. The objectives of the revisions were to:
  (a) Remove obstacles to the adoption of the Cash Basis IPSAS represented by the existing requirements dealing with consolidation, external assistance and third party payments: in particular, to recast the requirements in Part 1 of the IPSAS to prepare consolidated financial statements and disclose information about external assistance and third party payments as encouragements in Part 2 of the IPSAS;
  (b) Ensure that requirements and encouragements in the Standard are not contrary to those of the equivalent accrual IPSAS, except where such differences are appropriate to reflect adoption of the cash basis; and
  (c) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB's overall standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSAS, rather than as an end in itself.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

CONTENTS

PART 1: REQUIREMENTS

Part 1 of this Standard sets out the requirements for reporting under the cash basis of accounting.

Authoritative requirements are set out in bold italic type. They use the term "shall" to signal that they are authoritative requirements. They are to be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

The purpose of this Standard is to prescribe the manner in which general purpose financial statements are to be presented under the cash basis of accounting.

The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial statements and other general purpose financial reports (GPFRs) for accountability and decision-making purposes. Information about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides input useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity's own general purpose financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

Role of the Cash Basis IPSAS

The IPSASB is of the view that the objectives of financial reporting can best be achieved by adoption of the accrual IPSAS. Consequently the IPSASB encourages governments and other public sector entities to present financial statements that comply with the requirements of the accrual IPSAS. However, the IPSASB appreciates that in some jurisdictions a transitionary process may be necessary to achieve that end. The Cash Basis IPSAS has been developed as an intermediate step to assist in the transition to the accrual basis of financial reporting and adoption of accrual IPSAS. It is not intended as an end in itself. The role of the encouraged disclosures in Part 2 of the Standard is to support an entity's transition to the accrual basis of financial reporting and adoption of the accrual IPSAS.

The path chosen to transition to the accrual basis of financial reporting and adoption of the accrual IPSAS will reflect jurisdiction circumstances and, consequently, may differ from jurisdiction to jurisdiction. The IPSASB does not specify that a particular transitional path should be adopted nor that entities must necessarily adopt the Cash Basis IPSAS as the first step in the transition process.

1.1 Scope of the Requirements

1.1.1 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

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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.

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

1.1.2 ***A public sector entity which prepares and presents general purpose financial statements (financial statements) under the cash basis of accounting, as defined in this Standard, shall apply the requirements of Part 1 of this Standard in the presentation of its annual financial statements.***

1.1.3 General purpose financial statements are developed primarily to respond to the information needs of service recipients and resource providers who are not in a position to demand reports tailored to meet their specific information needs, and representatives of these users. Service recipients and their representatives and resource providers and their representatives include citizens, residents, taxpayers and ratepayers, members of the legislature (or similar body) and members of parliament (or a similar representative body), donor agencies, lenders and others that provide resources to, or benefit from, services of governments. General purpose financial statements 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. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report. For purposes of this Standard, the terms "general purpose financial statements" and "financial statements" are used interchangeably, unless specified otherwise.

1.1.4 A reporting entity is an individual entity that presents financial statements or, where a controlling entity elects to present group financial statements, a reporting entity may comprise a controlling entity and one or more controlled entities that present financial statements as if they are a single entity. A public sector reporting entity (hereafter referred to as a reporting entity or entity, unless specified otherwise) is a government or other public sector organization, program or identifiable area of activity for which financial statements are prepared. Paragraph 1.4.7 of this Standard requires the disclosure of certain information about the entities and activities in respect of which financial statements have been prepared.

1.1.5 This Standard applies equally to the financial statements of an individual entity and to the financial statements of a reporting entity that comprises a controlling entity and one or more controlled entities. It requires the preparation of a statement of cash receipts and payments which recognizes the cash controlled by the reporting entity, and the disclosure of accounting policies and explanatory notes.

1.1.6 ***An entity whose financial statements comply with the requirements of Part 1 of this Standard shall disclose that fact. Financial statements shall not be described as complying with this Standard unless they comply with all the requirements in Part 1 of this Standard.***

1.2 The Cash Basis

Definitions

1.2.1 ***The following terms are used in this Standard with the meaning specified:***

***Cash** comprises cash on hand, demand deposits and cash equivalents.*

***Cash basis** means a basis of accounting that recognizes transactions and other events only when cash is received or paid.*

***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.*

***Cash payments** are cash outflows.*

***Cash receipts** are cash inflows.*

***Control of cash** arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.*

***Control of an entity:** 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.*

***Controlled entity** is an entity that is under the control of another entity (known as the controlling entity).*

Cash Basis of Accounting

1.2.2 The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, investments and property, plant and equipment.

Cash Equivalents

1.2.3 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.

1.2.4 Bank borrowings are generally considered to give rise to cash inflows. However, in some jurisdictions, bank overdrafts which 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. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

1.2.5 Cash flows exclude movements between items that constitute cash because these components are part of the cash management of an entity rather than increases or decreases in the cash it controls. Cash management includes the investment of excess cash on hand in cash equivalents.

Cash Controlled by the Reporting Entity

1.2.6 Cash is controlled by an entity when the entity can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to, an entity which the entity can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the entity.

1.2.7 Amounts deposited in the bank account of an entity are controlled by that entity. In some cases, cash which a government entity:

(a) Collects on behalf of its government (or another entity) is deposited in its own bank account before transfer to consolidated revenue or another general government account; and

(b) Is to transfer to third parties on behalf of its government is initially deposited in its own bank account prior to transfer to the authorized recipient.

In these cases, the entity will control the cash for only the period during which the cash resides in its bank account prior to transfer to consolidated revenue or another government controlled bank account, or to third parties. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions. Additional guidance on the treatment of cash flows that an entity administers on behalf of other entities is included in paragraphs 2.1.6 to 2.1.13 of Part 2 of this Standard.

1.2.8 In some jurisdictions, a government will manage the expenditure of its individual departments and other entities through a centralized treasury function, often referred to as a "treasury single account". Under these arrangements, individual departments and entities do not establish their own separate bank accounts. Rather, the centralized treasury function acts as a bank on behalf of the individual departments and other entities. The cash inflows, cash outflows and cash balances of the entity which flow through, or are held in, the treasury single account will be reported in the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.4. From the perspective of the centralized treasury function, payments on behalf of individual departments and other entities are treated as changes within their accounts — reflecting the approach adopted by a bank in accounting for payments made on behalf of its customers.

1.2.9 In some cases, the centralized treasury function will be undertaken by an entity which controls the bank account(s) from which payments on behalf of the individual operating departments and other entities are made. In these cases, transfers to and payments from those bank accounts reflect cash receipts and payments which the central entity administers on behalf of the individual operating departments and other entities. Paragraph 1.3.13 specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other entities and which are recognized in the primary financial statements may be reported on a net basis. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions.

Control of an entity

1.2.10 Governments and other public sector entities may control a large number of entities including government departments, agencies and commercial public sector entities. Financial statements may be prepared in respect of a reporting entity that comprises an individual entity or a controlling entity and all or some of its controlled entities. This Standard encourages (at paragraph 2.1.37) but does not require, controlling entities to prepare and present consolidated financial statements that encompass the controlling entity and all its controlled entities, with exceptions in certain defined circumstances. The factors to be considered in assessing whether one entity controls another entity for financial reporting purposes are set out in IPSAS 35, *Consolidated Financial Statements*.

1.3 Presentation and Disclosure Requirements

Definitions

1.3.1 ***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 adopted by an entity in preparing and presenting financial statements.

<u>Materiality:</u> information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's financial statements prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

<u>Reporting date</u> means the date of the last day of the reporting period to which financial statements relate.

1.3.2 Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data that form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.

1.3.3 The principle of materiality provides that the specific disclosure requirements of International Public Sector Accounting Standards need not be met if the resulting information is not material.

Financial Statements

1.3.4 ***An entity shall prepare and present financial statements which include the following components:***

(a) ***A statement of cash receipts and payments which recognizes all cash receipts, cash payments and cash balances controlled by the entity;***

(b) ***Accounting policies and explanatory notes; and***

(c) ***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 statement of cash receipts and payments in accordance with paragraph 1.7.8 of this Standard.***

1.3.5 ***When an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraph 1.3.4(c), such information shall be disclosed in the notes to the financial statements.***

1.3.6 The financial statements comprises the statement of cash receipts and payments and other statements that disclose additional information about the cash receipts, payments and balances controlled by the entity and accounting policies and notes. In accordance with the requirements of paragraph 1.3.4(a) above, only cash receipts, cash payments and cash balances controlled by the reporting entity will be recognized as such in the statement of cash receipts and payments or other statements that might be prepared. In accordance with the requirements of paragraph 1.3.4(c) above, the financial statements may include a comparison of budget and actual amounts as an additional financial statement.

1.3.7 Paragraph 1.7.17 of this Standard provides that an entity can present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis. 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.

1.3.8 Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information. They include information required and encouraged to be disclosed by this Standard, and can include other disclosures considered necessary to achieve a fair presentation and enhance accountability.

1.3.9 This Standard does not preclude an entity from including in its general purpose financial statements, statements in addition to the statement of cash receipts and payments as specified in paragraph 1.3.4 above. Consequently, general purpose financial statements may also include additional statements which, for example:

(a) Report cash receipts, cash payments and cash balances for major fund categories such as the consolidated revenue fund;

(b) Provide additional information about the sources and deployment of borrowings and the nature and type of cash payments; or

(c) Provide a comparison of actual and budget amounts.

In accordance with the requirements of paragraph 1.3.5 above, any additional statements will only report cash receipts, payments and balances which are controlled by the entity.

1.3.10 Entities that report using the cash basis of accounting frequently collect information on items that are not recognized under cash accounting. Examples of the type of information that may be collected include details of:

(a) Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;

(b) Commitments and contingent liabilities; and

(c) Performance indicators and the achievement of service delivery objectives.

1.3.11 Entities preparing general purpose financial statements in accordance with this Standard may disclose such information in the notes to the financial statements where that information is likely to be useful to users. Where such disclosures are made they should be clearly described and readily understandable. If not disclosed in the financial statements themselves, comparisons with budget may also be included in the notes. Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements.

Information to be Presented in the Statement of Cash Receipts and Payments

1.3.12 ***The statement of cash receipts and payments shall present the following amounts for the reporting period:***

(a) ***Total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;***

(b) ***Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations; and***

(c) ***Beginning and closing cash balances of the entity.***

1.3.13 ***Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, shall be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:***

(a) ***They arise from transactions which the entity administers on behalf of other parties and which are recognized in the statement of cash receipts and payments; or***

(b) ***They are for items in which the turnover is quick, the amounts are large, and the maturities are short.***

1.3.14 ***Line items, headings and sub-totals shall be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances.***

1.3.15 This Standard requires all entities to present a statement of cash receipts and payments which discloses beginning and closing cash balances of the entity, total cash receipts and total cash payments over the reporting period, and major sub-classifications thereof. This will ensure that the financial statements provide comprehensive information about the cash balances of the entity and changes therein over the period in a format that is accessible and understandable to users.

1.3.16 Disclosure of information about such matters as the cash balances of the entity, whether cash is generated from taxes, fines, fees, and/or borrowings and whether it was expended to meet operating costs, for the acquisition of capital assets or for the retirement of debt will enhance transparency and accountability of financial reporting. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows.

Classification

1.3.17 The sub-classifications (or classes) of total cash receipts and payments which will be disclosed in accordance with paragraphs 1.3.12 and 1.3.14 are a matter of professional judgment. That judgment will be applied in the context of the objectives and qualitative characteristics of financial reporting under the cash basis of accounting. Appendix 4 of this Standard summarizes the qualitative characteristics of information included in general purpose financial reports. Total cash receipts may be classified to, for example, separately identify cash receipts from: taxation or appropriation; grants and donations; borrowings; proceeds from the disposal of property, plant and equipment; and other ongoing service delivery and trading activities. Total cash payments may be classified to, for example, separately identify cash payments in respect of: ongoing service delivery activities including transfers to constituents or other governments or entities; debt reduction programs; acquisitions of property, plant and equipment; and any trading activities. Alternative presentations are also possible, for example total cash receipts may be classified by reference to their source and cash payments may be sub-classified by reference to either the nature of the payments or their function or program within the entity, as appropriate.

1.3.18 Part 2 of this Standard encourages the disclosure of certain information about external assistance and other assistance received during the reporting period, and the balance of undrawn external assistance and other assistance available to the entity at reporting date. For many public sector reporting entities in developing economies, the classification of cash receipts and payments to identify the amount of external assistance and other assistance received as cash and the use of that assistance is likely to be relevant for accountability and decision-making purposes.

Line Items, Headings and Sub-Totals

1.3.19 Factors to be taken into consideration in determining which line items, headings and sub-totals should be presented within each sub-classification in accordance with the requirements of paragraph 1.3.14 above include: the requirements of other sections of this Standard; assessments of the likely materiality of the disclosures to users; and the extent to which necessary explanations and disclosures are made in the notes to the financial statements. Part 2 of this Standard sets out disclosures of additional major classes of cash flows that an entity is encouraged to make in the notes to the financial statements or in the financial statements themselves. It is likely that in many, but not necessarily all, cases these disclosures will satisfy the requirements of paragraph 1.3.12 above.

Reporting on a Net Basis

1.3.20 This Standard requires the reporting of cash receipts, payments and balances on a gross basis except in the circumstances identified by paragraph 1.3.13 above. Paragraphs 1.3.21 and 1.3.24 below further elaborate on those circumstances in which reporting on a net basis may be justified.

1.3.21 Governments and government departments and other government entities may administer transactions and otherwise act as agents on behalf of others. These administered and agency transactions may encompass the collection of revenues on behalf of another entity, the transfer of funds to eligible beneficiaries or the safekeeping of monies on behalf of constituents. Examples of such activities may 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 financial institution;

(c) Funds held for customers by an investment or trust entity;

(d) Rents collected on behalf of, and paid over to, the owners of properties;

(e) Transfers by a government department to third parties consistent with legislation or other government authority; and

(f) Funds administered by a central entity under the "single account" basis for management of government expenditure (as referred to in paragraph 1.2.8).

1.3.22 In many cases, the cash an entity receives in respect of transactions it administers as an agent for others will be deposited in trust accounts for, or directly in the bank account of, the ultimate recipients of the cash. In these cases, the entity will not control the cash it receives in respect of the transactions it administers and these cash flows will not form part of the cash receipts, cash payments or cash balances of the entity. However, in other cases the cash received will be deposited in bank accounts controlled by the entity acting as an agent and the receipt and transfer of that cash will be reported in the statement of cash receipts and payments of the entity.

1.3.23 In some cases, the amounts of the cash flows arising from administered transactions which "pass-through" the bank account of the reporting entity may be large relative to the entity's own transactions, and control may occur for only a short time before the amounts are transferred to the ultimate recipients. This may also be true for other cash flows including for example, advances made for, and the repayment of:

(a) The purchase and sale of investments; and

(b) Other short-term borrowings, for example, those which have a maturity period of three months or less.

1.3.24 The recognition of these transactions on a gross basis may undermine the ability of the financial statements of some governments and government entities to communicate information about cash receipts and cash payments resulting from the entity's own activities. Accordingly, this Standard permits cash receipts and cash payments to be offset and reported on a net basis in the statement of cash receipts and payments in the circumstances identified in paragraph 1.3.13 above.

Accounting Policies and Explanatory Notes

Structure of the Notes

1.3.25 ***The notes to the financial statements of an entity shall:***

(a) ***Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and***

(b) ***Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances.***

1.3.26 ***Notes to the financial statements shall be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements shall be cross referenced to any related information in the notes.***

Selection and Disclosure of Accounting Policies

1.3.27 ***Financial statements shall present information that is:***

(a) ***Understandable;***

(b) ***Relevant to the decision-making and accountability needs of users;***

(c) ***A faithful representation of the cash receipts, cash payments and cash balances of the entity and the other information disclosed in the financial statements in that it is:***

(i) **Complete;**

(ii) **Neutral; and**

(iii) **Free from material error;**

(d) ***Comparable;***

(e) ***Timely; and***

(f) ***Verifiable.***

Constraints on information included in financial statements are that it is material, satisfies a cost-benefit assessment, and achieves an appropriate balance between the qualitative characteristics identified in (a) to (f) above.

1.3.28 The quality of information provided in financial statements determines the usefulness of those statements to users. Paragraph 1.3.27 identifies the qualitative characteristics of, and pervasive constraints on, information included in financial statements. It requires the development of accounting policies to ensure that the financial statements provide information that meets the qualitative characteristics identified in paragraphs 1.3.27(a) to 1.3.27(f), and satisfies the constraints on information included in financial statements. Appendix 4 of this Standard summarizes the qualitative characteristics of, and constraints on, information included in general purpose financial reports. The maintenance of complete and accurate accounting records during the reporting period is essential for timely production of the financial statement.

1.3.29 ***The accounting policies section of the notes to the financial statements shall describe each specific accounting policy that is necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this Standard.***

1.3.30 ***Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.***

1.3.31 In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported cash receipts, payments and balances. An accounting policy may be significant even if amounts shown for current and prior periods are not material. Paragraph 1.3.4 of this Standard specifies that general purpose financial statements include accounting policies and explanatory notes. Consequently, the requirements of paragraph 1.3.29 above also apply to notes to the financial statements.

1.3.32 ***Where an entity elects to include in its financial statements any disclosures encouraged in Part 2 of this Standard, those disclosures shall comply with the requirements of paragraph 1.3.27 above.***

1.3.33 Part 2 of this Standard encourages the disclosure of additional information in notes to the financial statements. Where such disclosures are made, they will need to be understandable and to satisfy the other qualitative characteristics of financial information.

1.4 General Considerations

Reporting Period

1.4.1 ***The general purpose financial statements shall be presented at least annually. When, in exceptional circumstances, 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(s) for a period other than one year being used; and***

(b) ***The fact that comparative amounts may not be comparable.***

1.4.2 The reporting date is the date of the last day of the reporting period to which the financial statements relate. In exceptional circumstances an entity may be required to, or decide to, change its reporting date to, for example, align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that the reason for the change in reporting date is disclosed and that users are aware that the amounts shown for the current period and the comparative amounts are not comparable.

1.4.3 Normally, the financial statements are consistently prepared covering a one-year period. However, some entities prefer to report, for example, for a 52 week period for practical reasons. This Standard does not preclude this practice, as the resulting financial statements are unlikely to be materially different from that which would be presented for one year.

Timeliness

1.4.4 The usefulness of the financial statements are 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, although a timeframe of no more than three months is strongly encouraged. 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.

Authorization Date

1.4.5 ***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.***

1.4.6 The authorization date 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. It is important for users to know when the financial statements were authorized for issue, because 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.

Information about the Entity

1.4.7 ***An entity shall disclose the following in the notes to the financial statements if not disclosed elsewhere in information published with the financial statements:***

(a) ***The domicile and legal form of the entity, and the jurisdiction(s) 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, if any; and***

(d) ***The significant entities or sectors of government that are presented in the financial statements, and changes in the significant entities or sectors that comprise the reporting entity and were presented in the previous periods financial statements.***

1.4.8 Financial statements may be prepared for a single organization or administrative unit such as a government department, agency or program; for the government as a whole; or for a group of entities or identifiable activities such as those that reflect the budget sector, general government sector or other sector of government. The disclosure of the information required by paragraph 1.4.7 will enable users to identify the nature of the entity's operations and gain an understanding of the legislative and institutional environment within which it operates. It will also enable users to identify the significant entities or sectors that make up the reporting entity and changes therein since the last reporting date. This is necessary for accountability purposes and will assist users in understanding and evaluating the financial statements of the entity.

Restrictions on Cash Balances and Access to Borrowings

1.4.9 ***An entity shall disclose in the notes to the financial statements together with a commentary, the nature and amount of:***

(a) ***Significant cash balances that are not available for use by the entity;***

(b) ***Significant cash balances that are subject to external restrictions; and***

(c) ***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.***

1.4.10 Cash balances held by an entity would not be available for use by the entity when, for example, a controlled entity operates in a country where exchange controls or other legal restrictions apply and the balances are not available for general use by the controlling entity or other controlled entities.

1.4.11 Cash balances controlled by an entity may be subject to restrictions which limit the purpose or timing of their use. This situation often exists when an entity receives a grant or donation which must be used for a specific purpose. It may also exist where, at reporting date, an entity holds in its own bank accounts cash it has collected for other parties in its capacity as an agent but not yet transferred to those parties. Although these balances are controlled by the entity and reported as a cash balance of the entity, separate disclosure of the amount of such items is helpful to readers.

1.4.12 Undrawn borrowing facilities represent a potential source of cash for an entity. Disclosure of the amount of these facilities by significant type allows readers to assess the availability of such cash, and the extent to which the entity has made use of them during the reporting period.

Consistency of Presentation

1.4.13 ***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 operations of the entity 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 paragraph 1.3.27; or***

(b) ***A change in presentation is required by a future amendment to this Standard.***

1.4.14 A major restructuring of service delivery arrangements; the creation of a new, or termination of a major existing, government entity; a significant acquisition or disposal; or a review of the overall presentation of the entity's financial statements might suggest that the statement of cash receipts and payments or other individual financial statements should be presented differently. For example, a government may dispose of a government savings bank that represents one of its most significant entities with the remaining entities conducting mainly administrative and policy advice services. In this case, the presentation of the financial statements identifying a financial institution as a principal activity of the government is unlikely to be relevant.

1.4.15 Only if the revised structure is likely to continue, or if an alternative presentation provides information that is a faithful representation and is more relevant to users of the financial statement, should an entity change the presentation of its financial statements. When such changes in presentation are made, an entity reclassifies its comparative information in accordance with paragraph 1.4.19. Where an entity complies with this International Public Sector Accounting Standard, a change in presentation to comply with national requirements is permitted as long as the revised presentation is consistent with the requirements of this Standard.

Comparative Information

1.4.16 ***Unless a provision of this Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information shall be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.***

1.4.17 This Standard requires the presentation of a statement of cash receipts and payments and specifies certain disclosures that are required to be made in that statement and notes thereto. This Standard does not preclude the preparation of additional financial statements. Part 2 of this Standard encourages certain additional disclosures. Where financial statements in addition to the statement of cash receipts and payments are prepared or disclosures encouraged by Part 2 of this Standard are made, the disclosure of comparative information is also encouraged.

1.4.18 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, may be disclosed in the current period. Users benefit from knowing that the uncertainty existed at the last reporting date, and the steps that have been taken during the period to resolve the uncertainty.

1.4.19 ***When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts shall be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification shall be disclosed. When it is impracticable to reclassify comparative amounts, an entity shall disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.***

1.4.20 Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made is disclosed.

Identification of Financial Statements

1.4.21 ***The financial statements shall be clearly identified and distinguished from other information in the same published document.***

1.4.22 This Standard applies only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using this Standard from other information that may be useful to users but that is not the subject of this Standard.

1.4.23 ***Each component of the financial statements shall be clearly identified. In addition, the following information shall be prominently displayed 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;***

(b) ***Whether the financial statements cover an individual entity or a group of entities;***

(c) ***The reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;***

(d) ***The presentation currency; and***

(e) ***The level of precision used in the presentation of figures in the financial statements.***

1.4.24 The requirements in paragraph 1.4.23 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 read electronically, separate pages may not be used. In such cases, the items identified in paragraph 1.4.23 are presented frequently enough to ensure a proper understanding of the information given.

1.4.25 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 precision in presentation is disclosed and relevant information is not lost.

1.5 Correction of Errors

1.5.1 ***When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods shall be reported by adjusting the cash at the beginning of the period. Comparative information shall be restated, unless it is impracticable to do so.***

1.5.2 ***An entity shall disclose in the notes to the financial statements the following:***

(a) ***The nature of the error that relates to a prior period;***

(b) ***The amount of the correction; and***

(c) ***The fact that comparative information has been restated or that it is impracticable to do so.***

1.5.3 Potential current period errors discovered in the current period are corrected before the financial statements are authorized for issue. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. When an error is identified in respect of a previous period, the opening balance of cash is adjusted to correct the prior period error and the financial statements, including the comparative information for prior periods, is presented as if the error had been corrected in the period in which it was made. An explanation of the error and its adjustment is included in the notes.

1.5.4 The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.

1.5.5 This Standard requires the presentation of a statement of cash receipts and payments, and does not preclude the presentation of other financial statements. Where financial statements in addition to the statement of cash receipts and payments are presented, the requirements in paragraphs 1.5.1 and 1.5.2 for correction of errors will also apply to those statements.

1.6 Foreign Currency

Definitions

1.6.1 ***The following terms are used in this Standard with the meanings specified:***

***Closing rate** is the spot exchange rate at the reporting date.*

***Exchange difference** is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.*

***Exchange rate** is the ratio of exchange for two currencies.*

***Foreign currency** is a currency other than the presentation currency of the entity.*

***Presentation currency** is the currency in which the financial statements are presented.*

***Spot exchange rate** is the exchange rate for immediate delivery.*

Treatment of Foreign Currency Cash Receipts, Payments and Balances

1.6.2 ***Cash receipts and payments arising from transactions in a foreign currency shall be incorporated in the Statement of Receipts and Payments in an entity's presentation currency by applying to the foreign currency amount the spot exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.***

1.6.3 ***Cash balances held in a foreign currency shall be translated using the closing rate.***

1.6.4 ***The cash receipts and cash payments of a foreign controlled entity shall be translated at the exchange rates between the presentation currency and the foreign currency at the dates of the receipts and payments.***

1.6.5 ***An entity shall disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.***

1.6.6 ***When the presentation currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency shall be disclosed. The reason for any change in the presentation currency shall also be disclosed.***

1.6.7 Governments and government entities may have transactions in foreign currencies such as borrowing an amount of foreign currency, receiving external and other assistance in the form of foreign currency, or purchasing goods and services where the purchase price is designated as a foreign currency amount. They may also have foreign operations and transfer cash to and receive cash from those foreign operations. In order to include foreign currency transactions and foreign operations in financial statements the entity must express cash receipts, payments and balances in the currency in which the reporting entity presents its financial statements.

1.6.8 Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of cash receipts and payments in order to reconcile cash at the beginning and the end of the period. This amount is presented separately from cash receipts and payments and includes the differences, if any, had those cash receipts payments and balances been reported at end-of-period exchange rates.

1.7 Presentation of Budget Information in Financial Statements

Definitions

1.7.1 ***The following terms are used in this Standard with the meanings specified:***

***Accounting basis** means the accrual or cash basis of accounting as defined in the accrual basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard.*

Annual budget ***means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.***

Appropriation ***is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.***

Approved budget ***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.***

Budgetary basis ***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.***

Multiyear 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.***

Approved Budgets

1.7.2 An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multiyear 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 which 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.

1.7.3 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.

1.7.4 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

1.7.5 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.

1.7.6 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 receipts 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

1.7.7 This Standard uses the term actual or actual amounts 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 amounts.

Presentation of a Comparison of Budget and Actual Amounts

1.7.8 ***Subject to the requirements of paragraph 1.7.17, an entity that makes publicly available its approved budget(s) 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 statement of cash receipts and payments currently presented in accordance with this Standard. 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.***

Scope

1.7.9 This Standard applies to all entities that are required to, or elect to, make publicly available their approved budget(s). This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or include comparisons with, approved budgets which are not made publicly available.

1.7.10 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 where, for example, a government's financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Comparison of Budget and Actual Amounts

1.7.11 Presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget, which 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.

1.7.12 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.

1.7.13 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 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 actual and the original budget amounts, or actual and the final budget amounts, is required in accordance with paragraph 1.7.8(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on performance against original budget, or differences between actual and final budget to focus on compliance with the final budget.

1.7.14 In many cases, the final budget amount 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 1.7.23 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. That disclosure, together with the disclosures required by paragraph 1.7.8 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.

1.7.15 Management discussion and analysis, operations review or other public reports which 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 1.7.8(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements, and the notes to the financial statements identify the reports or documents in which the explanation can be found.

1.7.16 Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 1.7.8 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 1.7.8 will be made only in respect of the general government sector of the government.

Presentation

1.7.17 ***An entity shall present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.***

1.7.18 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). 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 statement of cash receipts and payments presented in accordance with this Standard. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

1.7.19 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 which is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis.

Level of Aggregation

1.7.20 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 document(s).

1.7.21 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 statements as identified in paragraph 1.3.27 of this Standard.

1.7.22 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Part 2 of this Standard encourages the inclusion in the financial statements of a cross reference to such documents.

Changes from Original to Final Budget

1.7.23 ***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, either:***

(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.***

1.7.24 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, notes to the financial statements or a separate report issued before, in conjunction with or at the same time as the financial statements, will include 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 such disclosures are made in a separate report rather than in the notes to the financial statements, the notes will include a cross reference to that report.

Comparable Basis

1.7.25 ***All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.***

1.7.26 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.

1.7.27 As noted in paragraph 1.7.10, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the reporting entity. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements and encouragements 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.

1.7.28 Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, in some, albeit rare, cases a government or government agency may adopt the cash basis for its financial statements and the accrual 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 cash receipts and payments and balances thereof. 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 which 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.

1.7.29 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 “non-market” 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.

1.7.30 In statistical reporting models, the general government sector may comprise national, state/provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its financial statements and 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 or local governments, the consolidated financial statements of the national government will not consolidate state/provincial or local governments that it does not control. However, separate financial statements may be 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.

Multiyear Budgets

1.7.31 Some governments and other entities approve and make publicly available multiyear budgets, rather than separate annual budgets. Conventionally, multiyear 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 multiyear budget for that component period. In some cases, the multiyear budget provides for a roll forward of unused appropriations in any single year.

1.7.32 Governments and other entities with multiyear 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 for determining the annual budget 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. Part 2 of this Standard encourages disclosure of the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

1.7.33 ***An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.***

1.7.34 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 plus certain accruals and commitments, while the financial statements report cash receipts and cash payments.

1.7.35 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, expenditures by economic nature (compensation of employees, supplies and consumables, grants and transfers, 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 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).

1.7.36 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.

1.7.37 ***An entity shall disclose in notes to the financial statements the period of the approved budget.***

1.7.38 Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multiyear 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 user 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.

1.7.39 ***An entity shall identify in notes to the financial statements the entities included in the approved budget.***

1.7.40 Paragraph 2.1.37 of Part 2 of this Standard encourages controlling entities to prepare and present consolidated financial statements which encompass budget-dependent entities and commercial public sector entities controlled by the government. However, as noted in paragraph 1.7.29, 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 1.7.25, 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

1.7.41 ***The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.7.25 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. 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.***

1.7.42 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) Budgetary 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 accrual basis or modified cash basis and the financial statements are prepared on the cash 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.

1.7.43 The reconciliation required by paragraph 1.7.41 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 total cash receipts and total cash payments recognized in the statement of cash receipts and payments. 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.

1.7.44 For entities adopting the cash basis of accounting for preparation of both the budget documents and the financial statements, a reconciliation will not be required where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. 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 non-commercial activities of the entity, or may be a multiyear 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.

1.7.45 ***The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.***

1.7.46 This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities which make publicly available their approved budget(s). It does not require the disclosure of a comparison of actual amounts 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.

1.8 Effective Date of Part 1 and Transitional Provisions

Transitional Provisions

1.8.1 ***Entities which are adopting the Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting for the first time shall apply all its provisions from the date of its first adoption.***

1.8.2 ***Entities that currently present financial statements in accordance with the superseded Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting are not required to comply with the requirements in this Standard until 1 January 2019.***

1.8.3 ***Where entities apply the transitional provision in paragraph 1.8.2, they shall disclose the accounting policies that have not yet been adopted.***

1.8.4 When an entity adopts the Cash Basis IPSAS for the first time, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption. The transitional provisions provide entities that currently adopt the Cash Basis IPSAS with a period of up to two years from the effective date of this Standard to adopt all of its accounting policies. Entities that take advantage of the transitional provisions shall identify the policies that they are not yet fully compliant with. All changes to accounting policies resulting from the application of this Standard shall be accounted for in accordance with the requirements of paragraphs 1.8.11 to 1.8.13 below.

Effective Date

1.8.5 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2019 it shall disclose that fact.***

1.8.6 This Standard applies to an entity which adopts the Cash Basis IPSAS for the first time and to an entity which already adopts the Cash Basis IPSAS.

Withdrawal of the Cash Basis IPSAS (2007)

1.8.7 ***This Standard supersedes the Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting issued in 2007.***

1.8.8 The Cash Basis IPSAS was first issued in January 2003. It was applicable to annual financial statements covering periods beginning on or after 1 January 2004. It was subsequently updated with additional requirements and encouragements dealing with budget reporting and external assistance in 2006 and 2007. The effective date of the additional requirements in Section 9, *Presentation of Budget Information in Financial Statements* and Section 10*, Recipients of External Assistance* of Part 1 of the Standard was for annual financial statements covering periods beginning on or after 1 January 2009.

1.8.9 This Standard was issued in 2017. It supersedes the 2007 Standard previously on issue. It has been revised to provide relief from the requirement for preparation of consolidated financial statements and disclosure of information about third party payments and external assistance included in Part 1 of the 2007 Standard. Certain of those requirements are now included as encouragements in Part 2 of this Standard. This Standard has also been amended to better align with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and the accrual IPSAS currently on issue where appropriate.

1.8.10 The combination of requirements and encouragements in Part 1 and Part 2 of this Standard will mean that in many, though not necessarily all, respects information presented in financial statements prepared in accordance with the superseded standard will also be presented by financial statements prepared in accordance with this Standard. However, entities that presented financial statements that complied with the superseded standard will need to review the requirements and encouragements in this Standard to ensure they remain compliant.

Changes in Accounting Policies of Entities that Adopt the Superseded Cash Basis IPSAS

1.8.11 ***When the adoption of this Standard requires a change in an accounting policy of an entity that currently applies the superseded Cash Basis IPSAS, the entity shall apply the change retrospectively by adjusting the opening cash balance of the current period presented and the other comparative amounts disclosed for the immediate prior period presented as if the new accounting policy had always been applied.***

1.8.12 ***When it is impracticable for an entity that currently applies the superseded Cash Basis IPSAS to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to the immediate prior period presented, the entity shall:***

(a) ***Apply the new accounting policy to transactions, other events and conditions occurring after the date at which the policy is changed; and***

(b) ***Recognize the effects of the new policy on the cash receipts, payments and balances of the current period and future periods affected by the change.***

1.8.13 ***When initial application of this Standard by an entity that currently applies the superseded Cash Basis IPSAS, (a) has an effect on the current period or the immediate prior period, or (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, the entity shall disclose:***

(a) ***The nature of the change in accounting policy;***

(b) ***For the current period and the immediate prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and***

(c) ***If retrospective application required by paragraph 1.8.11 is impracticable, 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.***

Basis for Conclusions – Cash Basis IPSAS Part 1

This Basis for Conclusions accompanies, but is not part of the IPSAS, Financial Reporting under the Cash Basis of Accounting.

The Basis for Conclusions which follows Part 2 of this Standard deals with amendments to the encouragements in Part 2.

Introduction

BC1 The IPSAS, *Financial Reporting under the Cash Basis of Accounting* (the Cash Basis IPSAS) was issued in January 2003 and updated with additional requirements and encouragements about the presentation of budget information in 2006 and external assistance in 2007. It comprises two parts: Part 1 identifies the requirements that must be adopted by a reporting entity whose general purpose financial statements comply with this Standard. Part 2 identifies encouraged additional disclosures which provide additional information useful for accountability and decision-making purposes and support those entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS.

Reasons for, and Scope of, this Review

BC2 While there are different views about just how many governments and other public sector entities have adopted the Cash Basis IPSAS, there is general agreement that it is not widely adopted. The requirements for consolidation, external assistance and third party payments have been identified by the IPSASB Task Force established to review operation of the IPSAS (IPSASB Task Force Report 2010) and many constituents, including those implementing the IPSAS, as major obstacles to adoption of the Cash Basis IPSAS.

BC3 Despite its limited adoption, the IPSASB's strategy consultation in 2014 found that there is strong support for retention of the Cash Basis IPSAS, whether as a Standard in its own right or as first step on the transition to the accrual basis of financial reporting and adoption of accrual IPSAS and, in some cases, for revisions to its requirements to remove obstacles to its adoption. Entities transitioning to the accrual basis of financial reporting are also encouraged to refer to IPSASB Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities* (Third Edition January 2011) which provides guidance on the approaches that may be adopted in transitioning to the accrual basis.

BC4 The amendments made through this revised Cash Basis IPSAS (2017) reflect a limited scope review of the IPSAS as a response to input the IPSASB has received from constituents on the operation of the Cash Basis IPSAS. The amendments are intended to:

(a) Overcome the substantial obstacles to its adoption represented by the requirements relating to consolidation, external assistance and third party payments; and

(b) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB's standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSAS, rather than an end in itself.

BC5 This revised Cash Basis IPSAS (2017) also includes minor "housekeeping" amendments intended to ensure that, while the requirements and encouragements in this Standard may differ from the requirements in equivalent accrual IPSAS, they are not contrary to those requirements unless intended to be so to reflect the cash basis focus in this Standard. Since issue of the Cash Basis IPSAS in 2003, the accrual IPSAS have been updated, and in some cases withdrawn and/or replaced. The "housekeeping" amendments reflect, as far as is appropriate, developments in the accrual IPSAS.

Consolidation

BC6 Many public sector entities wishing to prepare financial statements that comply with the requirements of this Standard and reflect best practice for financial reporting under the cash basis of accounting faced significant obstacles in the preparation and presentation of fully consolidated financial statements. This may be for a number of reasons including: (a) compatibility with existing legislation or regulation which requires the preparation of financial reports for the budget or general government sector or other grouping of activities; (b) difficulties in identifying all controlled entities at reporting date; (c) differences in the reporting basis adopted by commercial public sector entities, and (d) the capacity (including access to necessary technical expertise) to collect and process the necessary data on a timely basis and meet reporting deadlines.

BC7 Many constituents expressed concern that the previous consolidation requirements undermined the capacity of the Cash Basis IPSAS (2007) to perform its role of enhancing the quality of financial statements prepared under the cash basis of accounting and supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS — because governments and other public sector entities could not comply with the Standard. This revised Cash Basis IPSAS (2017) makes amendments to the Cash Basis IPSAS (2007) to respond to these concerns, as outlined below.

BC8 This revision removes from Part 1 of the Standard and recasts as an encouragement in Part 2 of the Standard the requirement that controlling entities are to prepare consolidated financial statements that consolidate all controlled entities be This is intended to overcome a major obstacle to adoption of the IPSAS.

BC9 Part 2 of this Standard also encourages controlling entities that do not consolidate all controlled entities to prepare financial statements that reflect a budget sector, general government sector or other representation of core government activities as they transition to the accrual basis of financial reporting and adoption of the accrual IPSAS. This supports an orderly and achievable transition to full consolidation as required by the accrual IPSAS, and responds to concerns of some constituents that full consolidation would result in the loss of information about core governmental activities and, in some cases, is contrary to legislative requirements.

BC10 To support those entities transitioning to the accrual basis, the key definitions, including that of control, are revised where necessary to ensure that they do not conflict with IPSAS 34, *Separate Financial Statements* and IPSAS 35, *Consolidated Financial Statements*.

BC11 The IPSASB considered a number of approaches to removing the obstacles to adoption represented by the current requirements for consolidation. While many of these approaches had merit, the IPSASB decided that, on balance, the approach taken in this revised Cash Basis IPSAS (2017) best responded to the concerns of those faced with implementing the Cash Basis IPSAS, and those dependent on financial statements prepared in accordance with the IPSAS for information useful for accountability and decision-making purposes. The other approaches considered, and IPSASB's reasons for not proposing their adoption, include:

(a) The inclusion of a transitional period of 3 to 5 years, or longer, from first adoption for entities to comply with the requirement that controlling entities shall consolidate all controlled entities. However, it is some 12 years since issue of the Cash Basis IPSAS and consolidation remains a major obstacle to its adoption. The IPSASB was not convinced that a 3 to 5 year transitional period was sufficient to overcome the wide, and differing, range of obstacles identified in many jurisdictions;

(b) Recasting all the consolidation requirements as encouragements, except for those requirements relating to the accounting procedures that are to be adopted in the preparation of consolidated financial statements and disclosure of the composition of the economic entity. Such an approach was appealing. It meant that the procedures adopted for the preparation of any consolidated financial statements would be identified as requirements to be applied consistently from period to period for the same economic entity and across all entities that complied with the IPSAS. However, the retention of these matters as requirements may continue to present obstacles to the adoption of the IPSAS. In addition, the IPSASB was of the view that designation of some processes and disclosures central to the preparation and presentation of consolidated financial statements as requirements and the designation of other such processes and disclosures as only encouragements is difficult to justify and results in an unnecessarily complex Standard;

(c) Retaining the existing consolidation requirements but providing relief for specific practical obstacles such as the need to consolidate commercial public sector entities or other problematic class of public sector entities. Such an approach would respond to some of the obstacles identified by constituents and was appealing on that basis. However, it did not respond to all of the obstacles identified by constituents. In addition, for consistency of application, it would have also required an agreed definition of what constitutes a commercial public sector entity or other specified class of public sector entities. It was not clear that such a definition would be readily applicable across all jurisdictions; and

(d) Requiring presentation of financial statements for an economic entity that reflects the budget sector or the general government sector or similar interim group of controlled entities, rather than for all controlled entities. Such an approach responded to obstacles identified by constituents in many jurisdictions and was appealing on that basis. However, any attempt to define or specify such an interim group may trigger some jurisdictional specific obstacles, particularly if legislative requirements did not directly align with a specified interim group. It may also give rise to obstacles in jurisdictions that are transitioning to the accrual basis and have moved past the interim group reporting entity that might be specified. This revised Cash Basis IPSAS (2017) allows and acknowledges that group financial statements reflecting the budget sector or general government sector may be prepared and presented on the path to the full accrual basis.

External Assistance

BC12 The requirements and encouragements for the disclosure of information about external assistance were added to the Cash Basis IPSAS in 2007 in response to requests from, and with the support of, many recipients, donors and others from the financial reporting community who saw a need for internationally agreed authoritative requirements for financial reporting of external assistance under the cash basis of accounting.

BC13 However, the IPSASB was aware that the information recipients of external assistance needed to satisfy the requirements of that Standard was not made as readily available or accessible as was anticipated by the IPSASB and its constituents when the requirements were developed and, after being subject to the IPSASB's due process, included in the Cash Basis IPSAS (2007). The Cash Basis IPSAS (2007) provided some relief from the disclosure requirements when the information is not readily available or verifiable. However, the IPSASB was concerned that the extent to which that relief was necessary, and the resultant inability to verify the completeness and accuracy of information disclosed, may well have undermined the usefulness for accountability or decision-making purposes of any resultant information that was disclosed. This revised Cash Basis IPSAS (2017) responded to these concerns as outlined below.

BC14 All requirements to disclose information about external assistance received during the reporting period and available to the entity at reporting date have been removed from Part 1 and recast as encouragements in Part 2 of the IPSAS and revised to focus on the disclosure of information about external assistance received as cash or in the form of third party payments. The Cash Basis IPSAS (2017) also encourages disclosure of similar information about *other assistance* (assistance from non-government organizations and other sources) received by the entity during the period.

BC15 The recasting of these requirements as encouragements will overcome a major obstacle to adoption of the IPSAS. It also responds to concerns of constituents that the requirements for disclosure of information about external assistance included in the Cash Basis IPSAS (2007) were:

(a) More detailed and onerous than those specified in the accrual basis IPSAS, and that was not consistent with the role in supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS; and

(b) In the nature of information that sits more comfortably in special purpose financial reports than in general purpose financial statements.

BC16 External assistance received in cash will continue to be recognized in the Statement of Cash Receipts and Payments. Paragraph 1.3.18 is added to Part 1 of the Cash Basis IPSAS (2017) to explain that for many public sector reporting entities in developing economies, the amount of external assistance received as cash is likely to warrant separate disclosure in the statement of cash receipts and payments.

Third Party payments

BC17 In principle, the rationale for the disclosure of third party payments as a separate column on the statement of cash receipts and payments appears sound — to ensure that the form of arrangements to provide cash resources to support an entity's operations during any period, whether provided to the recipient entity for the acquisition of goods or services or provided directly to the supplier of those goods or services as designated by the recipient, does not determine whether it is reported in the statement of cash receipts and payments. However, payments made by third parties are likely to mostly comprise payments for goods and services that satisfy the definition of external assistance and other assistance.

BC18 Concerns about limited access to information necessary to satisfy the requirements for disclosure of information about external assistance in the form of third party payments noted above, and the potential misinterpretation of the inevitable incomplete information that results, also apply to other categories of third party payments.

BC19 The Cash Basis IPSAS (2017) removes from Part 1 and recasts as encouraged disclosures in Part 2 the requirements for disclosure of information about payments made by third parties. This responds to the concerns of many constituents and overcome a major obstacle to adoption of the IPSAS.

BC20 In some jurisdictions, a government will manage the expenditure of its individual departments and other entities through a centralized treasury function, often referred to as a "treasury single account". The Cash Basis IPSAS (2007) reflected that under "treasury single account" arrangements, amounts paid by a central agency on behalf of a government department or other government entity that is a reporting entity are also to be classified as third party payments. The IPSASB was of the view that, while the individual departments and entities do not establish separate bank accounts in which amounts authorized for their use are deposited, they can use and will benefit from those amounts. Therefore they do control such cash inflows, outflows and available balances. The Cash Basis IPSAS (2017) includes additional explanation of treasury single account arrangements to reflect the IPSASB's view that such arrangements do not give rise to third party payments.

"Housekeeping" — Correction of Errors, Foreign Currency, Government Business Enterprises and Qualitative Characteristics

BC21 Some minor amendments have been made to terminology and explanation of defined terms in sections dealing with *Correction of Errors* and *Foreign Currency* to ensure that the requirements of this Standard are not directly in conflict with those in the equivalent accrual IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued in December 2006 and last updated in October 2011), and IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (issued in April 2008 and last updated in October 2011).

BC22 The differences between the current IPSAS 3 and IPSAS 4 and the equivalent IPSAS that were on issue when the Cash Basis IPSAS (2007) was approved are substantial. In some cases, they involved different accounting methods and in other cases additional disclosures. Readers should be aware that the revisions to these sections in the Cash Basis IPSAS (2017) do not fully reflect all the requirements of the updated

IPSAS 3 and IPSAS 4. This is because the IPSASB has not received input that the requirements of the Cash Basis IPSAS (2007) present obstacles to its adoption. The IPSASB was concerned that amending the Cash Basis IPSAS to incorporate all changes to IPSAS 3 and IPSAS 4 may have some unintended effects that could introduce additional obstacles to adoption of the IPSAS. While more substantial amendments to these sections are beyond the limited scope of this review, they may be considered in any future review of the Standard.

BC23 As part of the housekeeping process, this revised Cash Basis IPSAS (2017):

(a) Deletes the definition and explanation of a *Government Business Enterprise* (GBE). The characteristics of the public sector entities to which IPSAS are designed to apply are identified. This is consistent with amendments made in the IPSAS, *Applicability of IPSAS* (issued April 2016);

(b) Updates the objectives of financial reporting and the identification and explanation of the qualitative characteristics of information included in general purpose financial statements and pervasive constraints on such information, and the users of general purpose financial statements, to better reflect their explanation in the Conceptual Framework. Similar amendments are being developed for inclusion in accrual IPSAS; and

(c) Brings together and amends the requirements for the effective date of application of the Standard and transitional arrangements to better reflect the equivalent requirements of in IPSAS *3, Accounting Policies, Changes in Accounting Estimates and Errors* currently on issue.

Appendix 1

Illustration of the Requirements of Part 1 of the Standard

This Appendix is illustrative only and does not form part of the Standard. Its purpose is to assist in clarifying the meaning of the requirements of Part 1 of this Standard by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting for:

A The Financial Statements of National Government A;

***B The financial Statements of Government Entity B,** which controls its own bank account; and*

***C The financial Statements of Government Department C,** whose cash receipts and payments are managed through a* centralized treasury function often referred to as a *"treasury single account".*

APPENDIX 1A – GOVERNMENT A

FINANCIAL STATEMENTS FOR NATIONAL GOVERNMENT A

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED 31 DECEMBER 200X

(RECEIPTS ONLY)

	Note	200X			200X-1		
(in thousands of currency units)		**Receipts/(Payments)**			**Receipts/(Payments)**		
RECEIPTS							
Taxation							
Income tax		X			X		
Value-added tax		X			X		
Property tax		X			X		
Other taxes		X			X		
			X			X	
Donations, Grants and Other Aid	10		X			X	
Borrowings	3						
Proceeds from:							
Commercial Institutions			X				
Development Banks and similar organizations			X				
Capital Receipts							
Proceeds from disposal of plant and equipment		X			X		
Proceeds from disposal of financial instruments		X			X		
			X			X	
Trading Activities							
Receipts from trading activities				X			X
Other receipts	4			X			X
Total receipts				**X**			**X**

(in thousands of currency units)	Note	200X Receipts/(Payments)		200X-1 Receipts/(Payments)	
PAYMENTS					
Operations					
Wages, salaries and employee benefits		(X)		(X)	
Supplies and consumables		(X)		(X)	
			(X)		(X)
Transfers					
Grants		(X)		(X)	
Other transfer payments		(X)		(X)	
			(X)		(X)
Capital Payments					
Purchase/construction of plant and equipment		(X)		(X)	
Purchase of financial instruments		(X)		(X)	
			(X)		(X)
Loan and Interest Repayments					
Repayment of borrowings		(X)		(X)	
Interest payments		(X)		(X)	
			(X)		(X)
Other payments	5		(X)		(X)
Total payments			**(X)**		**(X)**
Increase/(Decrease)Cash			**X**		**X**
Cash beginning of year	2		**X**		**X**
Increase/(Decrease)Cash			**X**		**X**
Cash at end of year	*2*		**X**		**X**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT

For Government A for the Year Ended 31 December 200X

Budget Approved on the Cash Basis

(Classification of Payments by Functions)

(in thousands of currency units)	Actual Amounts	Final Budget	Original Budget	**Difference: Final Budget and Actual*
CASH INFLOWS				
Taxation	X	X	X	X
Grants and Aid agreements	X	X	X	X
Proceeds: borrowing	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X
Proceeds: disposal of financial instruments	X	X	X	X
Trading activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**
CASH OUTFLOWS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Environmental Protection	(X)	(X)	(X)	(X)
General Public Services	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOWS	**X**	**X**	**X**	**X**

* 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.

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared to provide details of amounts included in the statement of cash receipts and payments: for example, to disclose information by major fund groups or to disclose expenditures by major functions or programs, or to provide details of sources of borrowings. Columns disclosing budgeted amounts may also be included.

STATEMENT OF CASH RECEIPTS BY FUND CLASSIFICATION

	200X	**200X-1**
(in thousands of currency units)	**Receipts**	**Receipts**
RECEIPTS		
Consolidated Funds	X	X
Special Funds	X	X
Trading Funds	X	X
Loans	X	X
Total receipts	**X**	**X**

PROCEEDS OF BORROWINGS

	Note	**200X**	**200X-1**
(in thousands of currency units)		**Cash Receipts**	**Cash Receipts**
BORROWINGS			
Domestic Commercial Institution		X	X
Offshore Commercial Institution		X	X
Development Banks and Similar Lending Agencies		X	X
Total borrowings	3	**X**	**X**

STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF GOVERNMENT

	200X	200X-1
(in thousands of currency units)	**Payments**	**Payments**
PAYMENTS – Operating Account		
Education	X	X
Health	X	X
Social Protection	X	X
Defense	X	X
Public Order and Safety	X	X
Recreation, Culture and Religion	X	X
Economic Affairs	X	X
Environment Protection	X	X
General Public Services	X	X
Total payments	**X**	**X**
PAYMENTS – Capital Account		
Education	X	X
Health	X	X
Social Protection and Welfare	X	X
Defense	X	X
Public Order and Safety	X	X
Recreation, Culture and Religion	X	X
Environment Protection	X	X
General Public Services	X	X
Total payments	**X**	**X**
Total Operating and Capital Accounts	**X**	**X**

PUBLIC SECTOR ENTITY – WHOLE-OF-GOVERNMENT A

Notes to the Financial Statements

1. **Accounting Policies**

Basis of preparation

The financial statements have been prepared in accordance with Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for the national government of Country A. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government activities include the provision of health, education, defense, social protection, housing, recreational and cultural and general public services and economic management to, and on behalf of, constituents. [Identify level of government, jurisdiction and nature of services provided.]

A list of significant entities encompassed in the financial statements and the sectors in which they operate is shown in Note 7 to the financial statements.

Presentation currency

The presentation currency is (currency of Country A).

2. **Cash**

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks and investments in short-term money market instruments.

Cash included in the statement of cash receipts and payments comprise the following amounts:

(in thousands of currency units)	**200X**	**200X-1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

Included in the amount stated above is X currency units provided by the International Agency XX that is restricted to the construction of road infrastructure.

3. **Borrowings**

Borrowings comprise cash inflows from commercial banks and similar commercial institutions and development banks and similar aid agencies.

4. **Other Receipts**

Included in other receipts are fees, fines, penalties and miscellaneous receipts.

5. **Other Payments**

Included in other payments are dividends, distributions paid, legal settlements of lawsuits and miscellaneous payments.

6. **Undrawn Borrowing Facilities**

(in thousands of currency units)	**200X**	**200X-1**
Movement in Undrawn Borrowing Facilities		
Undrawn borrowing facilities at 1.1.0X	X	X
Additional loan facility	X	X
Total available	X	X
Amount drawn	(X)	(X)
Facility closure/cancellations	(X)	(X)
Undrawn borrowing facilities at 31.12.0X.	X	X

(in thousands of currency units)	**200X**	**200X-1**
Undrawn Borrowing Facilities		
Commercial Financial Institutions	X	X
Development Banks and similar organizations	X	X
Total undrawn borrowing facilities	X	X

7. **Significant Entities**

Entity 200X	**Entity 200X-1**
Entity A	**Entity A**
Entity B	**Entity B**
Entity C	**Entity C**
Entity D	**Entity D**

8. **Authorization Date**

The financial statement was authorized for publication on XX *Month* 200X+1 by Mr. YY, the Treasurer of Country A.

9. **Original and Final Approved Budget and Comparison of Actual and Budget Amounts**

The approved budget is developed on the same accounting basis (cash basis), same classification basis, and for the same period (from 1 January 200X to 31 December 200X) as for the financial statements. It encompasses the same entities as the consolidated financial statement – these are identified in Note 7 above.

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 Out-turn Report issued in conjunction with the financial statements.

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.

Alternative Note 9 when budget and financial statements are prepared on a different basis

9. **Original and Final Approved Budget and Comparison of Actual and Budget Amounts**

The budget is approved on a modified cash basis by functional classification. The approved budget covers the fiscal period from 1 January 200X to 31 December 200X and includes all entities within the general government sector. The general government sector includes all government departments – significant departments are included in the list of entities identified in Note 7 above.

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 Out-turn Report issued in conjunction with the financial statements.

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.

The budget and the accounting bases differ. The financial statements for the government are prepared on the cash basis using a classification based on the nature of expenses. The financial statements include all controlled entities, including commercial public sector entities for the fiscal period from 1 January 20XX to 31 December 20XX. The budget is approved on the modified cash basis by functional classification and deals only with the general government sector which excludes commercial public sector entities and certain other non-market government entities and activities.

The amounts in the statement of cash receipts and payments were adjusted to be consistent with the modified 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 statement of cash receipts and payments for timing differences associated with the continuing appropriation and differences in the entities covered (commercial public sector entities and other entities) were made to express the actual amounts on a comparable basis to the final approved budget.

A reconciliation between the actual inflows and outflows as presented in the statement of comparison of budget and actual amounts and the amounts of total cash receipts and total cash payments reported in the statement of cash receipts and payments for the year ended 31 December 20XX is presented below.

	Total inflows	**Total outflows**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**X**	**X**
Basis Differences	X	X
Timing Differences	-	-
Entity Differences	X	X
Total Cash receipts	**X**	
Total Cash Payments		**X**

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 include all entities controlled by the government. There is also a basis difference: the budget is prepared on a modified cash basis and the financial statements on the cash basis.

This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.

10. Donations, Grants and Other Aid

Cash receipts during the period included donations, grants and other aid provided by individual multilateral and bilateral donor agencies and non-governmental organizations; co-operative financing facilities established by such organizations and donations from charities, corporations and private individuals.

The amount of donations, grants and other aid (XXX) does not include aid received during the reporting period in the form of the proceeds of loans. The proceeds of any aid received during the period in the form of loans are included in the amount of borrowings presented as a separate line item in the Statement of Receipts and Payments.

APPENDIX 1B – GOVERNMENT ENTITY B

(THIS ENTITY CONTROLS ITS OWN BANK ACCOUNT.)

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR ENTITY B

FOR YEAR ENDED 31 DECEMBER 200X

	Note	**200X**	**200X-1**
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
RECEIPTS			
Authorized allocations		X	X
Other receipts		X	X
Total receipts		**X**	**X**
PAYMENTS			
Wages, salaries and employee benefits		(X)	(X)
Rent		(X)	(X)
Capital Payments		(X)	(X)
Transfers	3	(X)	(X)
Total payments		**(X)**	**(X)**
Increase/(Decrease) in Cash		**X**	**X**
Cash at beginning of year	2	**X**	**X**
Increase/(Decrease) in Cash		**X**	**X**
Cash at end of year	*2*	**X**	**X**

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

	Note	**200X**	**200X-1**
(in thousands of currency units)		**Payments**	**Payments**
PAYMENTS			
Program I		(X)	(X)
Program II		(X)	(X)
Program III		(X)	(X)
Program IV		(X)	(X)
Other payments		(X)	(X)
Total payments		**(X)**	**(X)**

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*.

The *accounting* policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for a public sector entity (Government Entity B). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government Entity B's principal activity is to provide [identify type of] services to constituents. The Entity controls its own bank account.

Presentation currency

The presentation currency is (currency of Country A).

2. Cash

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents *comprise* balances with banks and investments in short-term money market instruments.

Appropriations and other cash receipts are deposited in the Entity's bank account. All borrowings are undertaken by a central finance entity.

Receipts from exchange transactions are deposited in trading fund accounts controlled by the Entity. They are *transferred* to consolidated revenue at year end.

Cash included in the *statement* of cash receipts and payments comprise the following amounts:

(in thousands of currency units)	**200X**	**200X-1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

3. Transfers

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of the entity.

4. Significant Entities

Entity 200X	**Entity 200X-1**
Entity X	X
Entity Y	X

5. Authorization Date

The financial statements were authorized for issue on XX *Month* 200X+1 by Mr. YY, Minister of XXXXX for Entity AB.

APPENDIX 1C – GOVERNMENT DEPARTMENT C

(THE GOVERNMENT OPERATES A CENTRALIZED SINGLE ACCOUNT SYSTEM)

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR DEPARTMENT C FOR YEAR ENDED 31 DECEMBER 200X

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
RECEIPTS			
Allocations/ Appropriations	2	X	X
Other receipts		X	X
Total receipts		**X**	**X**
PAYMENTS			
Wages, salaries and employee benefits		(X)	(X)
Rent		(X)	(X)
Capital Payments		(X)	(X)
Transfers	3	(X)	(X)
Total payments		**(X)**	**(X)**

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions or payments. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

	Note	**200X**	**200X-1**
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
PAYMENTS			
Program I		X	X
Program II		X	X
Program III		X	X
Program IV		X	X
Other payments		X	X
Total payments		**X**	**X**

NOTES TO THE FINANCIAL STATEMENTS

1. **Accounting Policies**

Basis of preparation

The financial statements have been prepared in accordance with the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for a public sector entity: Government Department C. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government Department C's principal activity is to provide (specify type of) services to constituents.

Government Department C does not operate its own bank account. The Government operates a centralized treasury function which manages the cash receipts and payments (expenditures) of the department during the financial year.

Presentation currency

The presentation currency is (currency of Country A).

2. **Amounts authorized for use by Department C**

Amounts authorized for use by Government Department C are managed through a central account administered by the Office of the Treasury on the Department's behalf. Amounts are deployed on behalf of Department C on request when supported by presentation of appropriate documentation and authorization. All borrowings are undertaken by a central finance entity.

Amounts authorized for use of the Department which are unexpended amounts at year end are transferred to consolidated revenue.

3. **Transfers**

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of Department AC.

4. **Authorization Date**

The financial statements were authorized on XX *Month* 200X+1 by Mr. YY, Minister of XXXXX for Government Department C.

Part 2: Financial Reporting under the Cash Basis of Accounting—Encouraged Additional Disclosures

This part of the Standard is not mandatory. It is has been prepared to support those entities transitioning from the cash basis of accounting to the accrual basis of financial reporting and adoption of the accrual IPSAS. It sets out encouraged additional disclosures for reporting under the cash basis of accounting. It should be read together with Part 1 of this Standard, which sets out the requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italic type, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.

Reporting entities should plot their path to adoption of the accrual IPSAS, and commence the process of building the information necessary to comply with those IPSAS consistent with the transition path that has been adopted.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

The encouraged disclosures are set out in italicized type. They are to be read in the context of the commentary paragraphs in Part 2 of this Standard, which are in plain type,

2.1 Encouraged Additional Disclosures

Definitions

2.1.1 *The following terms are used in this part of the Standard with the meanings specified:*

Accrual basis 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.

Assets 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.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Closing rate is the spot exchange rate at the reporting date.

Distributions to owners are 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.

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.

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.

Revenue 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 Part 1 of this Standard are used in this part of the Standard with their defined meaning.

Future Economic Benefits or Service Potential

2.1.2 Assets, including cash and other resources, 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.

Going Concern

2.1.3 *When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.*

2.1.4 The determination of whether an entity is a going concern is primarily relevant for individual entities rather than for the government as a whole. For individual entities, in assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:

(a) Will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and

(b) May need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of receipts or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the entity is a going concern.

2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether the 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 their cash payments may exceed their cash receipts for extended periods; and

(b) For an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

Administered Transactions

2.1.6 *An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.*

2.1.7 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.

2.1.8 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.9 to 2.1.13 below provide guidance on the cash receipts, payments and balances that:

(a) May be controlled by a government or government entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and

(b) Are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

Revenue Collection

2.1.9 Public sector entities may control cash or administer cash receipts or payments on behalf of the government or other governments or government entities. For example, a government Department of Taxation (or revenue collection agency) may be established with its own bank account and provided with an appropriation to fund its operations. The operations of the Department will include administering certain aspects of the Taxation Act and may encompass the collection of taxes on behalf of the government.

2.1.10 A Department of Taxation can use cash appropriated to it and deposited in a bank account which it controls to achieve its operating objectives as mandated, and can exclude others from using or benefiting from that cash. In these cases, the Department will control the cash appropriated for its own use. However, the cash the Department collects on behalf of the government through its tax collection activities is usually deposited in a specified government trust fund or transferred to a government bank account administered by the Treasury or similar department. In these circumstances, the cash collected cannot be used to support achievement of the objectives of the Department of Taxation, or otherwise deployed at the discretion of the Department's management without specific appropriation or other authorization by the government or relevant body. Therefore, the cash collected is not controlled by the Department of Taxation and would not form part of the cash receipts or cash balances of the Department. As a consequence of a government decision, some of the amounts collected may be appropriated or otherwise allocated for use by the Department. However, it is the government's decision to authorize the expenditure of the funds by the Department of Taxation, rather than the collection of the cash, that gives rise to the control.

2.1.11 Similar circumstances may arise when one government, for example a state or local government, collects cash on behalf of another government (such as a national government). In these cases, the government is acting as an agent for others in the collection of cash. The cash that arises as a result of managing transactions as an agent for others would not usually be deposited in a bank account of the collection agency and therefore would not form part of the cash receipts, cash payments or cash balances of the reporting entity.

"Pass-through" Cash Flows

2.1.12 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity's own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed "pass-through" cash flows. In these cases, the entity will:

(a) Control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity's bank account prior to transfer to third parties;

(b) Usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and

(c) Have an obligation to transfer the cash collected to third parties in accordance with legislative requirements or administrative arrangements.

When cash inflows from administered transactions pass through a bank account controlled by the reporting entity, the cash receipts, cash transfers and cash balances arising from the collection activity will be included in the entity's statement of cash receipts and payments in accordance with paragraph 1.3.4(a) of Part 1 of this Standard. Paragraph 1.3.13(a) of Part 1 of this Standard specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other parties and which are recognized in the financial statements may be reported on a net basis.

Transfer Payments

2.1.13 Consistent with a government's objectives and with legislation or other authority, amounts appropriated to a government entity (a department, agency or similar) may include amounts to be transferred to third parties in respect of, for example, unemployment benefits, age or invalid pensions, family allowances and other social security and community benefit payments. In some cases, these amounts will pass through a bank account controlled by the entity. Where this occurs, the entity will recognize the cash appropriated for transfer during the reporting period as a cash receipt, the amounts transferred during that reporting period as a cash payment and any amounts held at the end of the reporting period for transfer in the future as part of closing balance of cash.

Disclosure of Major Classes of Cash Flows

2.1.14 *An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:*

(a) *An analysis of total cash payments using a classification based on either the nature of the payments or their function within the entity, as appropriate; and*

(b) *Proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.*

2.1.15 The sub-classifications encouraged in paragraph 2.1.14(a) may be presented on the face of the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.12 of Part 1 of this Standard. Where a different classification basis is adopted in the statement of cash receipts and payments, additional disaggregated disclosures reflecting the encouragement in paragraph 2.1.14(a) above is encouraged either as a separate statement or by way of note.

2.1.16 Cash payment items may be further sub-classified in order to enhance accountability by identifying the major purposes for which the payments are made. They may also be sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. An entity is encouraged to present this information in at least one of the following two ways.

2.1.17 The first method is referred to as the nature of payments method. Payments are aggregated in the statement of cash receipts and payments according to their nature (for example, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. An example of a classification using the nature of payments method is as follows:

	Cash payments
Wages and salaries	(X)
Transport costs	(X)
Capital acquisitions	(X)
Borrowing costs	(X)
Other	(X)
Total payments	(X)

2.1.18 The second method, referred to as the functional method of classification, classifies payments according to the program or purpose for which they were made. This presentation often provides more relevant information to users, although the allocation of payments to functions can be arbitrary and may involve considerable judgment. An example of a functional classification of cash payments is as follows:

	Cash payments
Health services	(X)
Education services	(X)
Other	(X)

Total payments	(X)

2.1.19 Under this method, the cash payments associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions related to the provision of health services and education services. The entity would present cash payment line items for each of these functions.

2.1.20 Entities classifying cash payments by function are encouraged to disclose additional information on the nature of payments, including payments made for salaries and other employee benefits.

2.1.21 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from borrowings, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) The total amount of receipts from external and other assistance (possibly classified by the amount of grants, loans and other assistance provided, the significant classes of providers of that assistance and the amount provided);

(e) Receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);

(f) Receipts from interest and dividends; and

(g) Receipts from gifts, donations, and other forms of assistance.

Related Party Disclosures

2.1.22 *An entity is encouraged to disclose in the notes to the financial statements information required by International Public Sector Accounting Standard IPSAS 20, "Related Party Disclosures."*

2.1.23 IPSAS 20, in the accrual based series of IPSAS, defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.

Disclosure of Assets, Liabilities, Revenues, Expenses and Comparison with Budgets

2.1.24 *An entity is encouraged to disclose in the notes to the financial statements:*

(a) Information about the assets, liabilities, revenues and expenses of the entity; and

(b) If the entity does not make publicly available its approved budget, a comparison with budgets

2.1.25 Governments and government entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend money in the future on the acquisition of capital assets. They also incur costs and generate revenues during the reporting period which will result in cash flows of a future reporting period. Non-cash assets, liabilities, revenues and expenses will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, governments maintain records of, and monitor and manage, their debt and other liabilities, their non-cash assets and the costs of their activities during the reporting period and the sources and amount of related revenues. The disclosure of information about assets, liabilities and the costs and revenues of particular programs and activities will enhance accountability and provide information useful for decision-making purposes and, therefore, is encouraged by this Standard.

2.1.26 Entities that make such disclosures are encouraged to identify revenues and expenses by nature or their function as appropriate to the entity's operations and assets and liabilities by type, for example, by classifying:

(a) Assets as receivables, investments or property plant and equipment; and

(b) Liabilities as payables, borrowings by type or source and other liabilities.

While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them as they transition to full adoption of the accrual IPSAS. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.32 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood.

2.1.27 Accrual basis IPSAS can provide useful guidance to entities disclosing additional information about assets, liabilities revenues and expense. Recommended Practice Guidelines will also provide guidance on disclosures that will assist users to better understand such matters as the financial position, financial performance and cash flows of the entity; its service performance objectives and achievements; and the sustainability of its finances.

Comparison with Budgets

2.1.28 Public sector entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorizing legislation. One of the objectives of financial reporting by public sector entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.7.1 to 1.7.46 of Part 1 of this Standard. This Standard encourages other entities (that is, entities which do not make publicly available their approved budgets) to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets for these other entities may be presented in different ways, including:

(a) The preparation of a note 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

(b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

2.1.29 *Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.*

2.1.30 *Entities which adopt multi-period budgets are encouraged to provide additional note disclosures about the relationship between budget and actual amounts during the budget period.*

2.1.31 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.

2.1.32 As noted in paragraph 1.7.32 of this Standard, entities may take different approaches to determining the annual budget within the multi-period budget. Where multi-period budgets are adopted, entities are encouraged to provide additional disclosures about such matters as the relationship between the multi period budget and component annual budgets and actual amounts during the budget period.

Consolidated Financial Statements

Definitions

2.1.33 *The following terms are used in this Part of the Standard with the meanings specified:*

<u>Consolidated financial statements</u> *are the financial statements of an economic entity in which the cash receipts, cash payments and cash balances of the controlling entity and its controlled entities are presented as that of a single entity.*

<u>Control of an entity:</u> *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.*

<u>Controlled entity</u> *is an entity that is under the control of another entity (known as the controlling entity).*

<u>Controlling entity</u> *is an entity that has one or more controlled entities.*

<u>Economic entity</u> *means a controlling entity and its controlled entities.*

Economic Entity

2.1.34 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. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. Factors to be considered in assessing whether one entity controls another entity for financial reporting purpose are outlined in IPSAS 35, *Consolidated Financial Statements*.

2.1.35 An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

2.1.36 The determination of the economic entity will need to be made having regard to the constitutional arrangements in a jurisdiction, in particular the ways in which government power is limited and allocated, and how the government system is set up and operates. For example, in jurisdictions with an executive, legislature and judiciary, these may collectively form an economic entity in respect of which there is a user need for consolidated financial statements. Such consolidated financial statements are commonly referred to as whole-of-government financial statements.

Scope of Consolidated Financial Statements

2.1.37 *A controlling entity, other than a controlling entity identified in paragraph 2.1.40 is encouraged to present consolidated financial statements which consolidates all its controlled entities, foreign and domestic by applying the following consolidation procedures:*

(a) *Cash balances and cash transactions between entities within the economic entity are eliminated in full;*

(b) *When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments are made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements; and*

(c) *Consolidated financial statements are prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.*

2.1.38 *When a controlling entity, other than a controlling entity identified in paragraph 2.1.40, does not present financial statements that consolidated all its controlled entities, it is encouraged to present financial statements that consolidate those of its controlled entities which represent the budget sector, general government sector or other economic entity that represents core government activities and responds to users information needs.*

2.1.39 *An economic entity uses the term "consolidated financial statements" to describe financial statements which comprises the controlling entity and its controlled entities as identified in paragraph 2.1.37. Financial statements of an economic entity which do not comprise the controlling entity and all its controlled entities as identified in paragraph 2.1.37, are identified by a term that is readily understood and clearly describes the classes or (characteristics) of entities that make up the economic entity.*

2.1.40 *The preparation of consolidated financial statements is unnecessary for a controlling entity that meets all the following conditions:*

(a) *It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;*

(b) *Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);*

(c) *It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and*

(d) *Its ultimate or any intermediate controlling entity produces consolidated financial statements that are available for public use and comply with the Cash Basis IPSAS or the accrual IPSAS.*

2.1.41 For accountability and decision-making purposes, users of the financial statements of a government or other public sector entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served by consolidated financial statements which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.

2.1.42 This Standard encourages governments and other public sector controlling entities to present financial statements which consolidate all controlled entities when users of such financial statements are likely to exist.

2.1.43 The consolidated financial statements of an economic entity that comprises a government and all its controlled entities will provide information about the cash resources controlled by the government directly and through its controlled entities at reporting date, and changes in those resources during the reporting period. The consolidated financial statements of other public sector economic entities such as, for example, a ministry of health or an education department, will provide information about the cash resources controlled by the ministry or department and changes in those resources during the reporting period.

2.1.44 The preparation of consolidated financial statements is not a cost-free process. Therefore, it is important that the benefits of preparing such statements justify the costs of their preparation. Preparation of consolidated financial statements by a controlling entity which is itself a controlled entity will often not be necessary in the circumstances identified in paragraph 2.1.40. This is because users' need for information presented in cash basis financial statements are often met by the consolidated financial statements of its controlling entity when such statements are prepared consistent with the requirement of the Cash Basis IPSAS or the accrual IPSAS, and the other circumstances identified in paragraph 2.1.40 apply. However, in other cases, consolidated financial statements at a whole-of-government level may not meet the information needs of users in respect of key sectors or activities of a government. In many jurisdictions, there are legislated financial reporting requirements intended to address the information needs of such users.

2.1.45 In some cases, an entity which has the power to direct the relevant activities of another entity may not be able to benefit from the activities of that other entity - for example, when the other entity is subject to severe external long-term restrictions which prevent the entity with the power to direct its activities from benefiting from those activities. The cash flows and balances of such entities are not included in consolidated financial statements. This is because consolidated financial statements present information about the cash resources of the government or other public sector reporting entity that can be used to support the delivery of goods and services or otherwise benefit the reporting entity.

2.1.46 Paragraph 2.1.40(d) acknowledges that the ultimate or intermediate controlling entity of an entity which adopts the cash basis IPSAS may prepare and present consolidated financial statements on an accrual basis. While this may occur in some jurisdictions, the ultimate or intermediate controlling entity is likely to face significant practical issues in compiling, in respect of controlled entities that adopt the cash basis, the information necessary to comply with the accrual IPSAS.

Transitioning to Consolidated Financial Statements

2.1.47 Governments and other public sector entities may control a large number of entities including government departments, agencies and commercial public sector entities. The preparation of consolidated financial statements that consolidate a controlling entity and all its controlled entities can be a complex and resource intensive process. Some governments and other public sector entities face significant obstacles in the preparation and presentation of consolidated financial statements and may not be able to prepare fully consolidated financial statements in the short to medium term as they commence the transition to the full accrual basis. This may be because of capacity constraints that limit the ability of a government or other entity to collect and process data from all controlled entities in a timely fashion, because of legislative or other requirements to present financial statements for a subgroup of controlled entities rather than for all controlled entities, or for other reasons.

2.1.48 As governments and other public sector entities that report on the cash basis transition to the accrual basis of financial reporting and develop the capacity, systems and the legislative frameworks to overcome obstacles to consolidation, the potential to include in cash basis financial statements information about additional controlled entities will increase. For governments, the preparation of financial statements that report information about the cash receipts, cash payments and cash balances of an economic entity that comprises the controlled entities that represents, for example, the budget sector, the general government sector or other representation of core government activities will provide information about key sectors of government that is useful to users for accountability and decision-making purposes. This Standard encourages a controlling entity that does not present fully consolidated financial statements to present financial statements for such an economic entity as an interim step in the transition to the accrual basis of financial reporting and the presentation of fully consolidated financial statements in accordance with the accrual IPSAS. Government agencies which do not consolidate all their controlled entities are also encouraged to present financial statements which consolidate controlled entities which represent a subgroup of their activities useful to users for accountability and decision-making purposes.

2.1.49 The term "consolidated financial statements" is used to describe financial statements that present a "full consolidation" of all controlled entities as identified in paragraph 2.1.37 of this Standard. A term other than "consolidated financial statements" is to be used to describe financial statements that present information about an economic entity that does not include the controlling entity and all its controlled entities. That term is to be readily understood and to clearly describe the classes or (characteristics) of entities that make up the economic entity. The selection of an appropriate term is a matter of professional judgement. That judgment should be exercised in the context of the qualitative characteristics of financial reporting including that it be understandable and a faithful representation of the economic entity presented. For national, state/provincial or local governments that prepare such financial statements, terms such as, for example, the financial statements of the budget sector or the general government sector may be appropriate.

Consolidation Procedures

2.1.50 The consolidation procedures outlined in paragraph 2.1.37 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit, as encouraged by this Standard.

2.1.51 The consolidated financial statements encouraged by this Standard reflect transactions between the economic entity and other entities external to it. Accordingly, transactions between entities within the economic entity are eliminated to avoid double-counting. For example, a government department may sell a physical asset to another government department. Because the net cash effect on the whole-of-government reporting entity is zero, this transaction needs to be eliminated to avoid overstating the cash receipts and cash payments of the whole-of-government reporting entity. A government entity may hold funds with a public sector financial institution. These balances would be eliminated at the whole-of-government level because they represent balances within the economic entity. Similarly, a commercial public sector entity operating overseas may make a payment to a government department which remains in transit at the reporting date. In this case, failure to eliminate the transaction in the preparation of whole-of-government consolidated financial statements would result in understating the cash balance of the whole-of-government economic entity and overstating its cash payments. However, the transaction would not be eliminated in financial statements prepared for a group entity that, for example, represented a general government sector which excluded the commercial public sector entity.

2.1.52 Individual entities within the economic entity may adopt different policies for the classification of cash receipts and cash payments and the presentation of their financial statements. Cash receipts or cash payments arising from like transactions are classified and presented in a uniform manner in the consolidated financial statements where practicable.

Consolidation Disclosures

2.1.53 *An entity is encouraged to disclose in the notes to the consolidated financial statements of an economic entity prepared in accordance with the encouragements in paragraph 2.1.37:*

(a) A listing of significant controlled entities including the name, the jurisdiction in which the controlled entity operates (when it is different from that of the controlling entity);

(b) The reasons for not consolidating a controlled entity;

(c) The proportion of ownership interest in controlled entities and a description of how that ownership interest has been determined; and

(d) Where applicable, the factors considered in determining that the controlling entity:

(i) *Controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities), together with an explanation of how control exists; and*

(ii) *Does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities).*

2.1.54 *An entity which presents financial statements for an economic entity which consolidates some but not all controlled entities as is encouraged in paragraph 2.1.37, is encouraged to disclose in the notes to those financial statements the disclosures encouraged in paragraph 2.1.53 together with:*

(a) *A description of the classes (or characteristics) of controlled entities that are included in, and excluded from, the group financial statements together with an explanation of the reason for the exclusion of any classes from the group accounts; and*

(b) *A listing of significant entities that have been added to, or removed from, those included in the group financial statements since presentation of the previous period's financial statements.*

2.1.55 *A controlling entity which does not present a consolidated financial statement as encouraged in paragraph 2.1.37 is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the method used to account for controlled entities in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes a consolidated financial statement.*

2.1.56 The disclosures encouraged in paragraphs 2.1.53 and 2.1.54 will provide users with information about the composition and key features of fully consolidated financial statements prepared in accordance with the encouragements in paragraph 2.1.37, and financial statements that consolidate a subset of its controlled entities in accordance with the encouragements in paragraph 2.1.38. The disclosures encouraged in paragraph 2.1.55 will enable users to determine whether a controlling entity prepares consolidated financial statements and, if not, the method used to account for controlled entities.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

2.1.57 *An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.*

2.1.58 *An entity is encouraged to disclose in the notes to the financial statements, 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 (including cash or other assets);*

(b) *The portion of the purchase or disposal consideration discharged by means of cash; and*

(c) *The amount of cash in the controlled entity or operating unit acquired or disposed of.*

2.1.59 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals would not be deducted from those acquisitions.

2.1.60 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.

2.1.61 Paragraph 2.1.24 encourages the disclosure of assets, liabilities, revenues and expenses of the entity. Assets, liabilities, revenues and expenses other than cash or cash flows of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarized by each major category.

Consistent with the requirement of paragraph 1.3.32 of Part 1 of this Standard, where such disclosure is made, the assets, liabilities, revenues and expenses should be clearly identified and the basis on which they are measured and recognized explained.

Joint Arrangements

2.1.62 *An entity is encouraged to make disclosures about joint arrangements which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at the reporting date.*

2.1.63 A joint arrangement is an arrangement of which two or more parties have joint control. Many public sector entities establish joint arrangements to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint arrangement are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint venturers. Entities which report on a cash basis will generally report:

(a) As cash payments, the cash expended in the acquisition of an interest in a joint arrangement and in the ongoing operations of the joint arrangement; and

(b) As cash receipts, the cash received from the joint arrangement.

Disclosures about joint arrangements may include a listing and description of interests in significant joint arrangements. International Public Sector Accounting Standards IPSAS 36, *Investments in Associates and Joint Ventures* and IPSAS 37, *Joint Arrangements* in the accrual based series of IPSAS provides guidance on the different forms and structures that joint arrangements may take and potential additional disclosures that might be made. The definition and explanation of “control” in IPSAS 35 will need to be considered in determining whether an entity is an “associate” and whether an arrangement is a “joint arrangement“ as defined in IPSAS 36 and IPSAS 37.

Financial Reporting in Hyperinflationary Economies

2.1.64 In a hyperinflationary economy, the presentation of the financial statements 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 accounting period, is misleading.

2.1.65 This Standard does not identify an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with the encouragements in this Standard would become 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; and

(e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

The Restatement of Financial Statements

2.1.66 *An entity that reports in the currency of a hyperinflationary economy is encouraged to:*

(a) *Restate its statement of cash receipts and payments and other financial statements in terms of the measuring unit current at the reporting date;*

(b) *Restate the comparative information for the previous period, and any information in respect of earlier periods in terms of the measuring unit current at the reporting date; and*

(c) *Use 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.*

2.1.67 *The entity is encouraged to make the following disclosures:*

(a) *The fact that the statement of cash receipts and payments and other financial statements, and the corresponding figures for previous periods, have been restated for the changes in the general purchasing power of the reporting 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 period.*

2.1.68 Prices change over time as the result of various 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 economic forces may result in changes in the general level of prices and therefore in the general purchasing power of money.

2.1.69 In a hyperinflationary economy, the usefulness of financial statements is substantially increased if they are expressed in terms of the measuring unit current at the reporting date. As a result, the treatments and disclosures in paragraphs 2.1.66 and 2.1.67 above are encouraged. Presentation of this information as the primary presentation rather than as a supplement to financial statements which have not been restated is encouraged. Separate presentation of the statement of cash receipts and payments and other financial statements before restatement is discouraged.

2.1.70 All items in the statement of cash receipts and payments will be expressed in terms of the measuring unit current at the reporting date. Therefore, all amounts, including any payments by third parties disclosed on the face of the statement of cash receipts and payments or in other financial statements, would be restated by applying the change in the general price index from the dates when the payments and receipts were initially recorded.

2.1.71 Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, this Standard encourages restatement of the budgetary information in accordance with this Standard.

Comparative Information

2.1.72 If comparisons with previous periods are to be meaningful, comparative information for the previous reporting period will be restated by applying a general price index so that the comparative financial statements are presented in terms of the measurement 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 measurement unit current at the end of the reporting period.

Consolidated Financial Statements

2.1.73 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. If the statement of cash receipts and payments and other financial statements are to be prepared on a consistent basis, the financial statements of any such controlled entity will 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.

2.1.74 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 statement.

Selection and Use of the General Price Index

2.1.75 The restatement of financial statements in accordance with the approach encouraged by 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.

2.1.76 The disclosures encouraged by this Standard are intended 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.

Payments by Third Parties on Behalf of the Entity

2.1.77 *When during the reporting period a reporting entity has been formally advised that payments have been made to directly settle its obligations or purchase goods and services for its benefit by third parties, or the entity has otherwise verified that such payments have been made, the entity is encouraged to disclose in notes to the financial statements:*

(a) Total payments made by such third parties; and

(b) A sub-classification of the total amount of such payments using a classification basis appropriate to the entity's operation.

2.1.78 In some cases, third parties purchase goods or services on behalf of the entity or settle obligations of the entity. For example, a national government may fund the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring and transferring to the other government the necessary supplies during the period. Similarly, a national government or independent aid agency may pay a construction company directly for building a road for another government rather than providing the funds directly to the government itself. These payments may be made by way of a grant, donation or other form of aid, or as a loan which is to be repaid. In these cases, the provincial or municipal government does not receive cash (including cash equivalents) directly from, or gain control of a bank account or similar facility established for its benefit by, the other entity. Therefore, the amount settled or paid on its behalf does not constitute "cash" as defined in this Standard. However, the recipient government benefits from the cash payments being made on its behalf.

2.1.79 The disclosure of information about the amount, and the classes of payments made by third parties (whether by nature, function or both) will provide additional information useful for accountability and decision-making purposes. In some cases, an entity may not have been formally advised or otherwise be aware of third party payments made on its behalf during the reporting period, or may be unable to verify that an expected payment has occurred. If an entity cannot have confidence that the amount of third party payments disclosed is a faithful representation of all such payments made on behalf of the entity during the period, the notes should advise users that such disclosures may not encompass all such third party payments.

2.1.80 Paragraph 2.1.77 encourages the disclosure of the total amount of third party payments made during the reporting period and the major classes of such payments. Third party payments will encompass amounts defined as external assistance and other assistance in paragraph 2.1.82 of this Standard. Paragraph 2.1.90(b) encourages the disclosure of the amount of external assistance provided to an entity in the form of third party payments. Paragraph 2.1.91 encourages that such disclosures also be made about other assistance where practicable.

2.1.81 The sub-classifications (or classes) of third party payments which may be disclosed in accordance with paragraphs 2.1.77(b) are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17 of Part 1 of this Standard.

Recipients of External and Other Assistance

Definitions

2.1.82 *The following terms are used in this Standard with the meaning specified:*

Assistance means external assistance and other assistance.

Bilateral External Assistance Agencies are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equally value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

External Assistance means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.

Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.

Non-Governmental Organizations (NGOs) are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, other organizations or individuals.

Official Resources means all loans, grants, technical assistance, guarantees or other forms of assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide, the assistance.

Other Assistance means resources provided by non-governmental organizations (NGOs) and gifts and donations or other forms of assistance voluntarily provided by individuals and private sector organizations which the recipient can use or otherwise benefit from in pursuit of its objectives. Other assistance does not include official resources, taxes, fines and fees, resources provided in an exchange transaction or resources provided by the government or agencies of a government of the same nation as the recipient.

Assistance

2.1.83 "Assistance" is defined broadly in this Standard to encompass "external assistance" and "other assistance". Key features of external assistance and other assistance are outlined below.

External assistance

2.1.84 External assistance is defined as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Different organizations may use different terminology for external assistance or classes of external assistance. For example, some organizations may use the term external aid or aid, rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However, in other cases, the terminology may be substantially different. In these cases it will be necessary to exercise professional judgment in determining whether the resources provided should be classified as external assistance.

2.1.85 Official resources are resources provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or governments or government agencies, other than to a recipient of the same nation as the provider of the assistance. Governments as referred to in the definition of official resources may include national, state, provincial or local governments in any nation. Therefore, assistance provided by, for example, a national government or state government agency of one nation to a state or local government of another nation is external assistance as defined in this Standard. However, assistance provided by a national or state government to another level of government within the same nation and assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding agreement, does not satisfy the definition of official resources and, therefore, is not external assistance.

2.1.86 External assistance agreements may provide for the entity to:

(a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;

(b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or

(c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External assistance agreements may also include the provision of goods or services to the recipient.

Other Assistance

2.1.87 Other assistance is defined as resources provided by NGO's and assistance that is voluntarily provided by, for example, individuals and charitable and other organizations. Taxes and other resources compulsorily paid or payable to public sector entities in accordance with laws or regulation, fines or other penalties imposed for breaches of laws or regulation, and fees for services provided by, or on behalf of, public sector entities are not other assistance as defined in paragraph 2.1.82. Similarly, resources provided in exchange transactions and transfers of resources between governments within the same nation are not classified as other assistance.

2.1.88 In most cases it will be clear whether resources are provided voluntarily and whether their intent is to provide assistance for purposes of, for example, emergency relief or to assist the entity in achieving economic development or welfare objectives, or for other purposes. However, in some cases, it will be necessary to exercise professional judgment in determining whether the resources provided should be classified as other assistance.

2.1.89 NGOs are foreign or national agencies established independent of control by any government. In some rare cases, it may not be clear whether the donor organization is a bilateral or multilateral external assistance agency or a NGO, and therefore independent of control by any government. Where such a donor organization provides, or commits to provide, assistance under the terms of a binding agreement, the distinction between official resources as defined in this Standard and resources provided by a NGO may become blurred. In these cases, professional judgment will need to be exercised to determine whether the assistance received satisfies the definition of external assistance or other assistance.

External Assistance Received

2.1.90 *An entity is encouraged to disclose separately in notes to the financial statements:*

(a) *The total amount of external assistance received in cash during the period unless disclosed as a separate class of cash receipt on the face of the statement of cash receipts and payments;*

(b) *The total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity when advised by the third party or otherwise verified by the recipient;*

(c) *The total amount of external assistance received during the period as loans and the total amount received as grants;*

(d) *The significant classes of providers of external assistance and the amount provided;*

(e) *By significant class and amount, the purposes for which external assistance was received and used during the reporting period showing separately amounts provided by way of loans and grants; and*

(f) *The balance of undrawn external assistance loans and grants available at reporting date to fund future operations when the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately:*

    (i) *Total external assistance loans;*

    (ii) *Total external assistance grants; and*

    (iii) *The purposes for which the undrawn loan assistance and undrawn grant assistance may be used.*

Other Assistance Received

2.1.91 *Where practicable, an entity is encouraged to apply to other assistance received, the disclosures identified in paragraph 2.1.90 above.*

External Assistance and Other Assistance Received

2.1.92 Disclosure of the total amount of external assistance received and, separately, other assistance received in the form of cash and in the form of third party payments made on behalf of the entity can provide useful information about the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance and other assistance, and the form of that assistance – whether as cash or other benefit. The disclosure of external assistance and other assistance received in the form of payments made by third parties is encouraged when the entity has been formally advised, or otherwise verified, that such payments have been made during the reporting period.

2.1.93 Disclosure of the amount of external assistance and other assistance received by way of loan or grant will enable users to identify whether the entity has an obligation to repay the assistance provided at some time in the future.

2.1.94 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organizations, NGOs, national assistance organizations or other major classes as appropriate for the reporting entity will identify the extent of the entity's dependence on particular classes of providers, and will be relevant to an assessment of the sustainability of the assistance.

2.1.95 An entity may receive external assistance for many purposes including assistance to support its:

(a) Economic development or welfare objectives, often termed development assistance;

(b) Emergency relief objectives, often termed emergency assistance;

(c) Balance of payments position or to defend its currency exchange rate, often termed balance of payments assistance;

(d) Military and/or defense objectives, often termed military assistance; and

(e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.

2.1.96 Other assistance may also be provided for some of these purposes such as, for example, emergency relief and to support an entity's welfare objectives.

2.1.97 Disclosure by significant class of the purposes for which external assistance and other assistance was provided and used during the reporting period will further enhance the entity's accountability for its use of assistance received.

2.1.98 The amount of external assistance and assistance from NGO's and other sources currently committed under a binding agreement but not yet drawn may be significant. In some cases, the amount of assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. The disclosure of undrawn balances of external assistance and other assistance in these circumstances will provide information about the extent to which assistance made available to the entity has been drawn on during the reporting period and the amount of committed external and other assistance is available to support the ongoing development of particular projects.

2.1.99 In some cases, a donor may express an intention to provide ongoing assistance to the reporting entity, but not specify in a binding agreement the amount of the assistance loan(s) or grant(s) to be provided in future periods. In other cases, the amount of assistance may be specified but be subject to terms and conditions, the satisfaction of which cannot be assessed as being highly likely at the reporting date. In these cases, disclosure of the undrawn amounts is not encouraged by paragraph 2.1.90(f). In some cases, professional judgment may need to be exercised in assessing whether the satisfaction of the substantial terms and conditions that determine, or effect access to, the external assistance or other assistance is highly likely.

Goods and Services Received

2.1.100 *An entity is encouraged to disclose separately in the notes to the financial statements the value of assistance received during the period in the form of goods or service, and the basis on which that value is determined.*

2.1.101 Significant resources may be received as assistance in the form of goods or services. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement or by, for example, NGO's or private sector benefactors. It will also occur when food aid is provided to a government for distribution to its citizens as emergency relief under an external assistance agreement or by NGO's or other donors. For some recipients, goods or services may be the major form in which assistance is received.

2.1.102 Disclosure of the value of assistance received as goods and services during the reporting period will assist readers of the financial statements to better understand the full extent of assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of an unique nature, such as often occurs in respect of emergency assistance.

2.1.103 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by an external assistance agency or other donor. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of assistance in the form of goods or services is disclosed, paragraph 2.1.100 encourages the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value – that is, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

2.2 Governments and Other Public Sector Entities Completing the Transition to the Accrual Basis of Financial Reporting and Adoption of Accrual IPSAS

Presentation of the Statement of Cash Receipts and Payments

2.2.1 *An entity which is completing its transition to the accrual basis of financial reporting and adoption of accrual IPSAS is encouraged to present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard 2 (IPSAS 2), Cash Flow Statements.*

2.2.2 As entities transition to the accrual basis of financial reporting they will need to progressively build the information and systems necessary to comply with each accrual IPSAS on issue prior to the formal adoption of the accrual IPSAS. The presentation of information in a format that replicates as far as possible that adopted by the accrual IPSAS will assist the transition process.

2.2.3 IPSAS 2 provides guidance on classifying cash flows as operating, financing and investing and includes requirements for preparing a cash flow statement which reports these classes separately on the face of the statement. A summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under this Standard is included in Appendix 3. Part 2 of this Standard encourages disclosure of information additional to that required by IPSAS 2. Entities which adopt the format of IPSAS 2 for the presentation of the statement of cash receipts and payments are encouraged to also make the additional disclosures identified in Part 2 of this Standard.

Consolidated Financial Statements – The Economic Entity

2.2.4 This Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities in accordance with generally accepted consolidation processes, and identifies some circumstances in which this may not be necessary. These circumstances reflect those in IPSAS 35, *Consolidated Financial Statements*. However, IPSAS 35 includes additional exemptions from the requirement to prepare consolidated financial statements for controlling entities that are investment entities and measure their controlled entities at fair value through surplus or deficit. This exemption is not applicable to controlling entities that are investment entities and apply the Cash Basis IPSAS.

2.2.5 When financial statements which consolidate all controlled entities are not presented, this Standard encourages the presentation of financial statements which present information about an economic entity that comprises subgroups of controlled entities such as those reflecting the budget sector or the general government sector or other representation of core government activities. While accrual IPSAS do not prohibit the presentation of information about such economic entities, they cannot be presented as an alternative to the full consolidation of all controlled entities as prescribed in IPSAS 35.

2.2.6 Entities completing the transition to the accrual basis of financial reporting and adoption of the accrual IPSAS will need to be aware of these differences in the consolidation requirements of the accrual and cash basis IPSAS.

Required and Encouraged Disclosures under the Cash Basis IPSAS

2.2.7 The requirements and encouragements of this Standard are not inconsistent with the requirements and encouragements of the equivalent accrual IPSAS to the extent they apply to financial reporting under the cash basis. However, in some cases this Standard encourages disclosures that are not required by the accrual IPSAS. This occurs in respect of, for example, encouraged disclosures about such matters as third party payments and external and other assistance. These disclosures are encouraged in this Standard to provide additional information useful in assessing how the entity is resourced. Such information is useful to all users of general purpose financial statements for accountability and decision-making purposes. It may also be relevant to the "special purpose" needs of, for example, providers of external and other assistance for information useful in monitoring the provision and use of assistance provided to the entity.

IPSAS 33—First-Time Adoption of Accrual Basis IPSAS

2.2.8 IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* identifies transitional provisions that provide entities with relief from adoption of certain of the requirements of accrual IPSAS for three (3) years from the date of first adoption of accrual IPSAS. IPSAS 33 provides that on the date of adoption of IPSAS, a first-time adopter may elect to adopt one of more of the exemptions included in IPSAS 33 and, subject to the nature of the exemptions adopted, identify its financial statements as either:

(a) *Transitional IPSAS financial statements*, when it adopts exemptions identified in IPSAS 33 as "Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS"; or

(b) *Financial statements that comply with the accrual IPSAS*, when it adopts other of the exemptions identified in IPSAS 33. That is the exemptions identified in IPSAS 33 as "Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS"[3].

2.2.9 Appendix A of IPSAS 33 lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS, and illustrates whether fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS will be affected.

[3] IPSAS 33, Appendix A lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS and illustrates whether fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS will be affected.

Basis for Conclusions – Cash Basis IPSAS Part 2

This Basis for Conclusions accompanies, but is not part of the IPSAS, Financial Reporting under the Cash Basis of Accounting.

Introduction — Removing obstacles to adoption of this IPSAS

BC1 The requirements for preparation of consolidated financial statements and disclosure of information about external assistance and third party payments that were previously included in Part 1 of the Cash Basis IPSAS (2007)(proved to be major obstacles to adoption of this Standard. To remove those obstacles these requirements were revised and recast as encouragements in Part 2 of the Standard.

BC2 In the process of recasting these requirements as encouragements, additional amendments were made to strengthen the role of Part 2 of the Standard in supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS.

Consolidation

BC3 Part 2 of the Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities. It also encourages controlling entities that do not consolidate all controlled entities, to prepare financial statements for an economic entity that represents the budget sector, the general government sector or other representation of core government activities as an interim step in the transition to the accrual basis of financial reporting and adoption of accrual IPSAS. Such financial statements will provide information useful to users for accountability and decision-making purposes and support an orderly and useful transition to full consolidation as required by the accrual IPSAS. The encouragement to present financial statements for an economic entity that comprises the controlled entities that represent the general government sector is also consistent with the IPSASB's strategic objective of supporting the convergence of public sector accounting standards and statistical bases of financial reporting where appropriate.

BC4 To further support those entities transitioning to the accrual basis, key definitions and encouraged disclosures were revised where necessary to ensure that they did not conflict with IPSAS 34, *Separate Financial Statements*; IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangement*s and IPSAS 38, *Disclosure of Interests in Other Entities*.

External assistance

BC5 Requirements to disclose information about external assistance that were included in Part 1 of the Cash Basis IPSAS (2007) have been revised and recast as encouragements in Part 2 of the Standard. In addition, disclosures that were previously required or encouraged have been reduced to focus primarily on encouragements to disclose information about external assistance received and used during the reporting period in the form of cash and third party payments, and the amount of undrawn assistance available to the reporting entity as at reporting date. This revised Cash Basis IPSAS (2017) also encourages the disclose of information about such matters as significant terms and conditions of external assistance agreements, terms and conditions that have not been complied with and repayment terms and conditions of outstanding external assistance debt be removed from the Standard. Where practical, Part 2 of the Standard encourages a reporting entity to make disclosures about assistance provided to the entity in the form of cash and third party payments by, for example, NGOs and public and private sector donors.

BC6 The IPSASB is of the view that the encouraged disclosures provide information useful for accountability and decision-making purposes, are more likely to be achievable and better reflect the general purpose nature intended for the cash basis financial statements.

BC7 Part 2 of the Cash Basis IPSAS (2007) encouraged the disclosure of the value of goods and services received during the period in the form of external assistance. Part 1 of the Cash Basis IPSAS (2007) required that where an entity chose to disclose the value of external assistance received during the period in the form of goods and services it should also disclose the basis on which that value is determined. Such disclosures were encouraged, but not required, for assistance received from NGO's. Some constituents sought clarification of the relationship of these requirements and encouragements to those relating to third party payments. Some constituents also expressed concern that the disclosure of the basis on which the value of goods and services was determined was required when those goods and services were received as official resources under external assistance agreements, but only encouraged in other circumstances. The IPSASB responded to these concerns. In this revised Cash Basis IPSAS (2017) the relationship between external assistance and third party payments has been clarified and the requirement to disclose the basis of valuation of goods and services received has been recast as an encouragement in Part 2 of the IPSAS and broadened to apply to external assistance and other assistance received in the form of goods and services.

Third Party payments

BC8 Part 1 of the Cash Basis IPSAS (2007) required the disclosure of certain information about payments made by third parties in a separate column on the face of the statement of cash receipts and payments. This revised Cash Basis IPSAS (2017) recasts this as an encouragement to include such disclosures in notes to the financial statements, rather than on the face of the financial statements. The recasting of the requirement to disclose information about third party payments as an encouragement was made because of concerns that information necessary to fully satisfy the requirements or encouragement would not be available to recipients on a timely basis. In such circumstances, the information included in the financial statements was likely to be incomplete and the potential for misinterpretation of its usefulness for accountability and decision-making purposes did not justify its disclosure in a separate column on the face of the financial statements.

BC9 This revised Cash Basis IPSAS (2017) also makes changes to Part 1 to include an additional explanation of single account type arrangements to reflect the IPSASB's view that such arrangements do not give rise to third party payments. This explanation narrows the circumstances in which third party payments may arise.

Amendments to support Entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS

BC10 This revised Cash Basis IPSAS (2017) makes refinements to the encouragements in Part 2 to reinforce the role of the Standard in supporting governments and other public sector entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS. These refinements include:

(a) Updated definitions and encouraged disclosures to ensure that they are not contrary to the equivalent accrual IPSAS unless intended to be so to reflect the cash basis focus in this Standard; and

(b) Outlining the role of IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector* Accounting *Standards (IPSAS)* in providing relief from complying with certain of the requirements of accrual IPSAS for a 3-year period from first adoption.

BC11 Consistent with the role of Part 2 of the Standard in supporting entities transitioning to the accrual basis of financial reporting and adoption of the accrual IPSAS, the definitions of assets, liabilities, revenues and expenses included in this Standard are the same as those included in the accrual IPSAS. While encompassing essentially the same characteristics, the definitions of assets, liabilities, revenues and expenses in the "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities" (The Conceptual Framework) have been further developed to clarify their key characteristics. The accrual IPSAS have not yet been updated to reflect the definitions of assets, liabilities, revenues and expenses in the Conceptual Framework and, consequently, the definitions in this Standard do not reflect those in the Framework.

Extraordinary Items

BC12 This revised Cash Basis IPSAS (2017) no longer encourages the disclosure of information about extraordinary items and supporting definitions and explanations. IPSAS 1, *Presentation of Financial Statements* (issued in 2000), which was on issues when the previous Cash Basis IPSAS was issued, required certain disclosures about extraordinary items to be made on the face of the financial statements. IPSAS 2, *Cash Flow Statements* (issued in 2000) and IPSAS 3, *Accounting Policies, Changes in Accounting Estimates* and *Errors* (issued in 2000) also required separate disclosure of extraordinary items. These requirements have now been removed from the accrual IPSAS. The accrual IPSAS do not require, encourage or prohibit disclosure of extraordinary items. These amendments were made to align Part 2 of this Standard with the accrual IPSAS.

Appendix 2

Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

This appendix is illustrative only. The purpose of the appendix is to illustrate the application of the encouragements and to assist in clarifying their meaning.

Extract from notes to the financial statements of Government Entity ABC

Administered Transactions (paragraph 2.1.6)

Administered transactions comprise cash flows resulting from transactions administered by the Entity as an agent on behalf of the government and specific government bodies. All cash collected in the capacity of an agent is deposited in the consolidated revenue fund and/or trust account (name of account), as appropriate. These accounts are not controlled by the Entity and the cash deposited in them cannot be used by the Entity without specific authorization by the relevant government body.

(in thousands of currency units)	**Nature of Transaction**	**200X**	**200X-1**
Cash collected on behalf of			
The Executive/Crown	Collection of taxation	X	X
Agency EF	Collection of utility service fee		
		X	X
		X	X
Cash transferred to respective entities		(X)	(X)
		-	-

Related Party Transactions (paragraph 2.1.22)

The key management personnel (as defined by International Public Sector Accounting Standard IPSAS 20, *Related Party Disclosures*) of Entity ABC 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 A. 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 Entity ABC. 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 Entity's chief executive officer, the chief financial officer, and the 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 millions.

Number of persons AQ persons.

Government X: Consolidated Statement of Cash Receipts and Payments of Government X and extracts from notes to the financial statements of Government X

Government X: Statement of Consolidated Cash Receipts and Payments:

Year Ended 31 December 200X *(Paragraph 2.1.37)*

(Receipts)

	Note	**200X**	**200X-1**
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
RECEIPTS			
Taxation			
Income tax		X	X
Value-added tax		X	X
Property tax		X	X
Other taxes		X	X
		X	X
External and Other Assistance	F	X	X
Borrowings			
Proceeds from Commercial Institutions		X	
Development Banks and similar organizations		X	
Capital Receipts			
Proceeds from disposal of plant and equipment		X	X
Proceeds from disposal of Financial Instruments		X	X
Trading Activities			
Receipts from trading activities		X	X
Other receipts		X	X
Total receipts		**X**	**X**

Government X: Statement of Consolidated Cash Receipts and Payments:

Year Ended 31 December 200X

(*Payments)*

(in thousands of currency units)	Note	200X Receipts/(Payments)		200X-1 Receipts/(Payments)	
PAYMENTS					
Operations					
Wages, salaries and employee benefits		(X)		(X)	
Supplies and consumables		(X)		(X)	
			(X)		(X)
Transfers					
Grants		(X)		(X)	
Other transfer payments		(X)		(X)	
			(X)		(X)
Capital Payments					
Purchase/construct plant and equipment		(X)		(X)	
Purchase of financial instruments		(X)		(X)	
			(X)		(X)
Loan and Interest Repayments					
Repayment of borrowings		(X)		(X)	
Interest payments		(X)		(X)	
			(X)		(X)
Other payments			(X)		(X)
Total payments			**(X)**		**(X)**
Increase/(Decrease) Cash			**X**		**X**
Cash at beginning of year			**X**		**X**
Increase/(Decrease) Cash			**X**		**X**
Cash at end of year			**X**		**X**

Notes to consolidated financial statements of Government X

(Extracts illustrating encouraged disclosures)

Note A: Controlled Entities *(paragraph 2.1.53)*

Entity XYZ has rights to variable benefits from its involvement with controlled entities and has the ability to affect the nature or amount of those benefits through its power over those entities. All controlled entities are included in the consolidated financial statements. The significant controlled entities are identified below.

Significant Controlled Entities	Jurisdiction
Entity A	
Entity B	
Entity C	X
Entity D	
Entity E	
Entity F	
Entity G	
Entity H	X
Entity I	
Entity J	

Control of government entities arises by way of statute or other enabling legislation. Control of commercial public sector entities (commercial entities) arises by way of statute and in the case of commercial entities C and D, by way of ownership interest. The Government retains control of commercial entity J through legislative authority although the majority of the equity of commercial entity J has been sold to private investors.

Entity	Ownership Interest (%)	Voting Power (%)
Entity C	XX	XX
Entity D	XX	XX
Entity J	XX	XX

(Extract from notes to consolidated financial statements of Government X continued)

Acquisitions of Controlled Entities and Operating Units (*paragraphs 2.1.57 and 2.1.58*)

Names of Entities acquired	Proportion of shares acquired %	Purchase consideration (in thousands of currency units)	Cash portion of purchase consideration (in thousands of currency units)	Cash balances acquired (in thousands of currency units)
Entity C	XX	X	X	X
Entity D	XX	X	X	X
		X	X	X

Disposals of Controlled Entities and Other Operating Units

Name of Entities disposed of	**Proportion of shares disposed of %**	**Disposal consideration (in thousands of currency units)**	**Cash portion of disposal consideration (in thousands of currency units)**	**Cash balance disposed of (in thousands of currency units)**
Enterprise H	XX	X	X	X

Note B: Significant Joint Arrangements *(paragraph 2.1.62)*

		Output Interest	
Name of Joint Arrangement	**Principal Activity**	**200X %**	**200X-1 %**
Regional Water Board	Water provision	XX	XX
Regional Electricity Board	Provision of utility services	XX	XX

(Extract from notes to consolidated financial statements of Government X Continued)

Note C: Assets, Liabilities, Revenues and Expenses *(paragraph 2.1.24(a)*)

Property, plant and equipment

The Government commenced the process of identifying and valuing major classes of its property, plant and equipment. The assets are stated at historical cost or valuation. The valuations were performed by an independent professional valuer. The valuation bases used for each class of assets are as follows:

Plant and Equipment	Cost
Land	Current Value
Buildings	Cost or Market Value

(in thousands of currency units)	**200X**	**200X-1**
Plant and equipment	X	X
Land and buildings		
Property within jurisdiction (country, state, city) limits	X	X
Buildings at cost	X	X
Buildings at valuation	X	X
	X	X

Revenue and Expense

The Government continues to build data on revenues and expenses of the reporting period as it transitions to the accrual basis of financial reporting.

The Government maintains records of property taxes due and payable at reporting date based on property values as assessed by the revenue office on a three year rolling basis, It also estimates amounts of goods and services tax and [*identify industry*] royalties accruing based on sales and production returns and reports.

It is developing a statistical model for measuring income tax revenue on an accruals basis which draws on taxation statistics compiled since 200X-3 as well as other 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, 20XX.

(*Extract from notes to consolidated financial statements of Government X Continued)*

Accrued expenses comprise amounts due and payable for wages, salaries and rental and other costs due and payable as at reporting date.

(in thousands of currency units)	**200X**	**200X-1**
Accrued Revenue	X	X
Property taxes	X	X
Goods and services tax	X	X
Royalties	X	X
Accrued Expenses		
Wages and salaries	X	X
Rent	X	X
Other	X	X

Borrowings

The borrowings of the Government are listed below:

(in thousands of currency units)	**200X**	**200X-1**
Balance at beginning of year	X	X
PROCEEDS		
Domestic Commercial Institution	X	X
Offshore Commercial Institution	X	X
Development Banks and Similar Lending Agencies	X	X

(in thousands of currency units)	200X	200X-1
Total borrowings	**X**	**X**
REPAYMENTS		
Domestic Commercial Institution	(X)	(X)
Offshore Commercial Institution	(X)	(X)
Development Banks and Similar Lending Agencies	(X)	(X)
Total repayments	**(X)**	**(X)**
Balance at end of year	X	X

(Extract from notes to consolidated financial statements of Government X continued)

Note D: Comparison with Budget when the entity does not make its budget publicly available *(paragraph 2.1.24(b))*

(in thousands of currency units)	Actual		Budget		Variance	
RECEIPTS						
Taxation						
Income tax	X		X		X	
Value-added tax	X		X		(X)	
Property tax	X		X		X	
Other taxes	X		X		(X)	
		X		X		X
Assistance – Aid Agreements						
International agencies	X		X		-	
Other	X		X		-	
		X		X		-
Borrowings						
Proceeds from borrowings		X		X		(X)
Capital Receipts						
Proceeds from disposal of plant and equipment		X		X		X
Trading Activities						
Receipts from trading activities		X		X		X
Other receipts		X		X		X
Total receipts		**X**		**X**		**X**

(in thousands of currency units)	Actual	Budget	Variance
PAYMENTS			
Operations			
Wages, salaries and employee benefits	(X)	(X)	(X)
Supplies and consumables	(X)	(X)	X
	(X)	(X)	(X)
Transfers			
Grants	(X)	(X)	-
Other transfers	(X)	(X)	-
	(X)	(X)	-
Capital Payments			
Purchase/construction of plant and equipment	(X)	(X)	(X)
Purchase of financial instruments	(X)	(X)	-
	(X)	(X)	(X)
Loan and Interest Repayments			
Repayment of borrowings	(X)	(X)	-
Interest payments	(X)	(X)	-
	(X)	(X)	-
	(X)	(X)	X
Other payments	(X)	(X)	X
Total payments	**(X)**	**(X)**	**(X)**
NET RECEIPTS/(PAYMENTS)	**X**	**X**	**X**

(*Extract from notes to consolidated financial statements of Government X continued*)

Note D2: When the Entity Prepares a Biennial Budget

Biennial Budget On Cash Basis - For The Year Ended 31 December 200X *(paragraph 2.1.30)*

(in thousands of 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**	**Difference: Budget and Actual for Budget Period*
CASH INFLOWS									
Taxation	X	X	X	X	X	X	X	X	X
Aid agreements	X	X	X	X	X	X	X	X	X

Proceeds: borrowing	X	X	X	X	X	X	X	X	X
Proceeds-Disposal of: Plant & equipment	X	X	X	X	X	X	X	X	X
Financial Instruments	X	X	X	X	X	X	X	X	X
Other receipts	X	X	X	X	X	X	X	X	X
Total inflows	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
CASH OUTFLOWS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order& safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
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)
Environment Protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
General Public Services	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total outflows	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOW	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(Extract from notes to consolidated financial statements of Government X continued)

Note E: Payments by Third Parties *(paragraph 2.1.77)*

Government X benefits from payments made by third parties to purchase goods and services on its behalf during the period. These payments do not constitute cash receipts or payments by the government. They include payments for goods and services made by multilateral and bilateral aid agencies and non-governmental organizations. They form part of the support for government programs provided by way of external and other assistance – additional information about external assistance and other assistance is provided in Note F below. The government has verified that the following payments have been made by third parties to purchase goods and services during 200X and 200X-1.

THIRD PARTY PAYMENTS

	200X	**200X-1**
(in thousands of currency units)		

Wages and Salaries	X	X
Supplies and consumables	X	X
Capital Payments	X	X
Loan and interest repayment	X	X
Total third party payments	**X**	**X**

Note F: External Assistance and Other Assistance ***(paragraphs 2.1.90 and 2.1.91)***

Assistance was received in the form of cash transfers and deposits to current and term deposit accounts and trusts fund accounts controlled by the government. It also encompasses amounts drawn by the government from accounts of donors consistent with external assistance and other assistance agreements and other authorizations. Assistance was also received in the form of third party payments.

External assistance comprises loans and grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilized. Other assistance was provided for specified purposes by NGOs, private corporations and other donors.

The amounts, class of provider and purposes for which external assistance was provided during the period is outlined below.

(Extract from notes to consolidated financial statements of Government X continued)

External Assistance and Other Assistance received ***(paragraph 2.1.90(a), (b), (c) and (d) and paragraph 2.1.91)***

(in thousands of currency units)	200X		200X-1
External Assistance			
Total cash receipts	X		X
Total third party payments	X		X
Total External Assistance	X		X
Multilateral aid agencies			
Cash receipts	X		X
Third party payments	X		X
Total multilateral aid agencies	X		X
Bilateral aid agencies			
Cash receipts	X		X
Third party payments	X		X

Total bilateral aid agencies	X		X
Other Assistance			
Total cash receipts	X		X
Total third party payments	X		X
Total Other Assistance	X		X
Non-Governmental Organizations (NGOs)			
Cash receipts	X		X
Third party payments	X		X
Total NGOs	X		X
Private corporations and other donors			
Cash receipts	X		X
Total private corporations and other donors	X		X

(Extract from notes to consolidated financial statements of Government X continued)

(in thousands of currency units	**200X**		**200X+1**
Loan Funds	X		X
External assistance	X		X
Total Loan Funds	X		X
Grants and Donations			
External Assistance	X		X
Other assistance	X		X
Total Grants and Donations	X		X

Purposes for which External Assistance and Other Assistance was provided and used *(paragraph 2.1.90(e) and paragraph 2.1.91)*

External Assistance

During the reporting period external assistance was received from multilateral and bilateral external assistance agencies under agreements specifying that the assistance would be utilized for the following purposes:

	Development Assistance		**Emergency Assistance**		**Other**		**Total**	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**

Loan Funds	X	X	-	-	X	-	X	X
Grant Funds	X	-	X	X	-	-	X	X
Total	**X**	**X**	**X**	**X**	**X**	-	**X**	**X**
Amount utilized	**X**	**X**	**X**	**X**	**X**	**-**	**X**	**X**

Other Assistance

During the reporting period other assistance was received as grants and donations from non-governmental organizations, private sector corporations and other donors for the following purposes:

	Development Assistance		**Emergency Assistance**		**Total**	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Grants & Donations	**X**	**X**	**X**	**X**	**X**	**X**
Amount utilized	**X**	**X**	**X**	**X**	**X**	**X**

(Extract from notes to consolidated financial statements of Government X continued)

Undrawn External Assistance and Other Assistance ***(paragraph 2.1.90(f) and paragraph 2.1.91)***

Undrawn external assistance loans and grants consist of amounts which have been specified in a binding agreement with external assistance agencies but have not been utilized at reporting date, and are subject to terms and conditions that have been satisfied in the past and it is anticipated will be satisfied in the future. There were no amounts of undrawn assistance from NGOs or other providers of other assistance in 200X or 200X-1.

	Development Assistance		**Emergency Assistance**		**Other**		**Total**	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Closing balance - Loans	X	X	-	-	X	X	X	X
Closing balance - Grants	X	X	-	-	X	X	X	X

Goods and Services Received ***(paragraph 2.1.100)***

During 200X, a severe earthquake occurred in the ZZZ region inflicting serious damage to government property and private property, and significant loss of life. Multilateral agencies, bilateral agencies, NGO's, private corporations and associations of several nations donated personnel and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialized medical teams trained in trauma treatment together with medical equipment, were flown into the region. Temporary shelter, food and clothing were also supplied. The value of goods and services received has been estimated at XX domestic currency units. The value of the emergency assistance provided has been estimated based on cost estimates provided by international aid agencies, NGO's and corporations that were major contributors because local prices for equivalent goods or services were not available.

Fifty thousand tons of rice was received as food aid during the year. It has been valued at XX domestic currency units which represents the wholesale price of similar rice in domestic wholesale markets.

Goods and services received during the year have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government. Goods and services-in-kind were received as part of the emergency assistance and are reflected in this note.

Appendix 3

Presentation of the Statement of Cash Receipts and Payments in the Format Required by IPSAS 2, *Cash Flow Statements*

Paragraph 2.2.1 of Part 2 of this Standard encourages an entity which is completing its transition to the accrual basis of financial reporting and adoption of accrual IPSAS to present a statement of cash receipts and payments in the same format as that required by IPSAS 2, Cash Flow Statements. IPSAS 2 is applied by an entity which reports on an accrual basis of financial reporting in accordance with International Public Sector Accounting Standards.

This appendix provides a summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under the cash basis of accounting as required by this Standard. Entities intending to present a statement of cash receipts and payments in accordance with the requirements of IPSAS 2 as far as is appropriate will need to refer to that IPSAS.

Presentation in the Format Required by IPSAS 2, *Cash Flow Statements*

1 IPSAS 2, *Cash Flow Statements* requires an entity which prepares and presents financial statements under the accrual basis of financial reporting ***and adoption of accrual IPSAS*** to prepare a cash flow statement which reports cash flows during the period classified by operating, investing and financing activities as defined below.

Definitions

2 *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.

Components of the Financial Statements

3 In presenting a statement of cash receipts and payments in this format it may be necessary to classify cash flows arising from a single transaction in different ways. (The term cash flow statement is used in the remainder of this appendix for a statement of cash receipts and payments presented in the same format as that required by IPSAS 2.) 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 may be classified as a financing activity. An entity presenting information by way of a cash flow statement presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities.

4 A cash flow statement will include line items which present the following amounts:

(a) Total receipts from operating activities;

(b) Total payments on operating activities;

(c) Net cash flows from operating activities;

(d) Net cash flows from investing activities;

(e) Net cash flows from financing activities;

(f) Beginning and closing balances of cash; and

(g) Net increase or decrease in cash.

Additional line items, headings and sub-totals will also be presented on the face of the statement when such presentation is necessary to present fairly the entity's cash flows.

5 An entity will also present on the face of the cash flow statement or in the notes:

(a) Major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities, except to the extent that paragraph 1.3.13 of Part 1 of this Standard allows reporting on a net basis;

(b) A sub-classification of total cash receipts from operations in a manner appropriate to an entity's operations; and

(c) An analysis of payments on operating activities using a classification based on either the nature of payments or their function within the entity, as appropriate.

Separate disclosure of payments made for capital acquisitions and for interest and dividends is also consistent with the requirements of IPSAS 2.

6 Disclosure of information about such matters as whether cash is generated from taxes, fines, fees (operating activities), the sale of capital assets (investing activities) and/or borrowings (financing activities) and whether it was expended to meet operating costs, for the acquisition of capital assets (investing activities) or for the retirement of debt (financing activities) will enhance transparency and accountability of financial reports. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows. Accordingly, this Standard encourages all entities to disclose this information in the financial statements and/or related notes.

Operating Activities

7 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:

(a) By way of taxes (directly and indirectly); and

(b) From the recipients of goods and services provided by the entity.

The disclosure of the amount of net cash flows from operating activities also assists in identifying the extent to which operations of the entity generate cash that can be deployed to repay obligations, pay a dividend/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.

8 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, or transfers and other appropriations or budget authorizations made by central government or other public sector entities, including those made for the acquisition of capital assets;

(d) Cash receipts from royalties, fees and commissions;

(e) Cash payments to other public sector entities to finance their operations (not including loans or equity injections);

(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 a public sector 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 discontinuing operations; and

(l) Cash receipts or payments in relation to litigation settlements.

9 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.

10 In some jurisdictions, governments or other public sector entities will appropriate or authorize funds to entities to finance the operations of the 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 budget authorizations as current activities, capital works (operating activities) and contributed capital (investing activities), IPSAS 2 explains that the entity should classify the appropriation or budget authorization as cash flows from operations, and disclose this in the notes to the statement of cash flows.

Investing Activities

11 The separate disclosure of cash flows arising from investing activities identifies the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. 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 designated 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

12 The separate disclosure of cash flows arising from financing activities 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;

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease; and

(d) Cash receipts and payments relating to the issue of and redemption of currency.

Interest and Dividends

13 IPSAS 2 requires the separate disclosure of cash flows from interest and dividends received and paid. IPSAS 2 also requires that where such disclosures are made they should be classified in a consistent manner from period to period as either operating, investing or financing activities.

14 The total amounts of interest and dividends paid and received during a period are disclosed in the cash flow statement. Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of the cash flows associated with interest and dividends received and paid for other entities. Interest and dividends paid and interest and dividends received may be classified as operating cash flows. Alternatively, interest and dividends paid and interest and dividends 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.

Reporting Major Classes of Receipts and Payments

15 The sub-classification of receipts depends upon the size, nature and function of the amounts involved. Depending upon the nature of the entity, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) Receipts from grants, transfers, or budget appropriations (possibly classified by source); and

(e) Receipts from interest and dividends.

16 Payment items are sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. Examples of classification of payments by nature and function are included in Parts 1 and 2 of this Standard.

Appendix 4

Qualitative Characteristics of Information Included in General Purpose Financial Reports

Paragraph 1.3.27 of Part 1 of this Standard requires that the financial statements provide information that meets the qualitative characteristics of information included in general purpose financial statements and satisfies the constraints on such information. This appendix summarizes the qualitative characteristics and constraints of general purpose financial reports as identified in paragraph 1.3.27. For a full explanation of the qualitative characteristics and constraints, readers should refer to "The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities".

Qualitative characteristics are the attributes that make the information provided in financial statements 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. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The qualitative characteristics are understandability, relevance, faithful representation, timeliness, comparability and verifiability. Pervasive constraints on information included in financial statements are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

Understandability

Understandability is the quality of information that enables users to comprehend its meaning. General Purpose Financial Statements (financial statements) 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. Users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand without assistance.

Relevance

Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. 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.

Faithful Representation

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 transactions and other events, activity or circumstance—which is not necessarily always the same as its legal form.

Comparability

Information in financial statements is comparable when users are able 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.

Comparability applies to the:

- Comparison of financial statements of different entities; and
- Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that the financial statements show corresponding information for preceding periods.

Timeliness

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.

Verifiability

Verifiability is the quality of information that helps assure users that information in financial statements 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 financial statements. 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.

Constraints on Information Included in General Purpose Financial Statements

Materiality

Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's financial statements prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should justify the cost of providing it. 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 financial statements.

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.

Preparers expend the majority of the effort to provide information in financial statements. 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 financial statements. Users reap the majority of benefits from the information provided by financial statements. However, information prepared for financial statements may also be used internally by management and result in better decision-making by management.

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 financial statements 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 Qualitative Characteristics

The qualitative characteristics work together to contribute to the usefulness of information. 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.

INTRODUCTION TO RECOMMENDED PRACTICE GUIDELINES

Recommended Practice Guidelines (RPG) are developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

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

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards (IPSAS) and RPG Guidelines for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

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

RPG 1—REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES

History of RPG

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* was issued in July 2013.

Since then, RPG 1 has been amended by the following IPSAS and RPG:

- *Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* (issued May 2023)
- *The Applicability of IPSAS* (issued April 2016)

Table of Amended Paragraphs in RPG 1

Paragraph Affected	How Affected	Affected By
5	Deleted	*The Applicability of IPSAS* April 2016
6	Amended	*The Applicability of IPSAS* April 2016
IG1	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG2	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG3	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023

REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance on reporting on the long-term sustainability of a public sector entity's finances ("reporting long-term fiscal sustainability information"[1]). The RPG provides information on the impact of current policies and decisions made at the reporting date on future inflows and outflows and supplements information in the general purpose financial statements ("financial statements"). The aim of such reporting is to provide an indication of the projected long-term sustainability of an entity's finances over a specified time horizon in accordance with stated assumptions.

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity reporting long-term fiscal sustainability information is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSAS).

3. The scope of this RPG includes an entity's projected flows. It is not limited to those flows related to programs providing social benefits. Nevertheless, this RPG acknowledges that the flows relating to programs providing social benefits, including entitlement programs that require contributions from participants, can be a highly significant component of reporting long-term fiscal sustainability information for many entities.

4. This RPG does not directly address issues associated with the reporting of environmental sustainability. However, an entity should assess any financial impacts of environmental factors and take them into account when developing its projections.

5. [Deleted]

6. Although this RPG does not apply directly to commercial public sector entities, the future inflows and outflows related to a commercial public sector entity, controlled by the reporting entity, over the specified time horizon of the projections are within the scope of this RPG.

7. Long-term fiscal sustainability information should not be described as complying with this RPG unless it complies with all the requirements of this RPG.

8. This RPG outlines minimum information levels. The RPG does not preclude the presentation of additional information if such information is useful in meeting the objectives of financial reporting and meets the qualitative characteristics (QCs) of financial reporting.

Definitions

9. The following terms are used in this RPG with the meaning specified:

   <u>Current policy assumptions</u> are those assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances.

   <u>Inflows</u> are cash and cash equivalents projected to be received or accrued by the entity over the time horizon of the projections.

   <u>Long-term fiscal sustainability</u> is the ability of an entity to meet service delivery and financial commitments both now and in the future.

   <u>Outflows</u> are cash and cash equivalents projected to be paid or accrued by the entity over the time horizon of the projections.

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1 The IPSASB acknowledges that in a number of jurisdictions the term "fiscal" has a narrow interpretation related to taxation. In this RPG the term is used with a broader meaning to include both inflows and outflows.

A projection is forward-looking financial information prepared on the basis of the entity's current policy assumptions, and assumptions about future economic and other conditions.

Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSAS) are set out in Appendix A.

Determining Whether to Report Long-Term Fiscal Sustainability Information

10. In determining whether to report long-term fiscal sustainability information, an entity needs to assess whether potential users exist for prospective financial information.

11. Long-term fiscal sustainability information is broader than information derived from the financial statements. It includes projected inflows and outflows related to the provision of goods and services and programs providing social benefits using current policy assumptions over a specified time horizon. It therefore takes into account decisions made by the entity on or before the reporting date that will give rise to future outflows that do not meet the definition of and/or recognition criteria for liabilities at the reporting date. Similarly it takes into account future inflows that do not meet the definition of and/or recognition criteria for assets at the reporting date.

12. Assessments of long-term fiscal sustainability use a broad range of data. These data include financial and non-financial information about future economic and demographic conditions, assumptions about country and global trends such as productivity, the relative competitiveness of the national, state or local economy and expected changes in demographic variables such as age, mortality, morbidity, fertility, gender, income, educational attainment and workforce participation.

13. The relevance of reporting long-term fiscal sustainability information should be considered in the context of that entity's funding and capacity to determine service delivery levels. There are likely to be users for long-term fiscal sustainability information for entities with one or more of the following characteristics:

    (a) Significant tax and/or other revenue raising powers;

    (b) Powers to incur significant debt; or

    (c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.

Reporting Boundary

14. Use of the same reporting boundary as for the financial statements enhances the understandability of projections and increases their usefulness to the users of general purpose financial reports (GPFRs).

15. An entity may report long-term fiscal sustainability information using another reporting boundary, such as the General Government Sector (GGS). This may be to enhance consistency and comparability with other jurisdictions or because there are other indicators that are used to assess long-term fiscal sustainability based on another reporting boundary. Entities providing information on the GGS are encouraged to also present information in accordance with IPSAS 22*, Disclosure of Financial Information about the General Government Sector.*

Reporting Long-Term Fiscal Sustainability Information

16. Long-term fiscal sustainability information prepared in accordance with this RPG should enable users to assess various aspects of the long-term fiscal sustainability of the entity, including the nature and extent of financial risks that the entity faces.

17. The form and content of an entity's long-term fiscal sustainability information will vary depending on the nature of the entity and the regulatory environment in which it operates. A single presentation approach is

unlikely to satisfy the objectives of financial reporting. To meet the objectives[2] and QCs of financial reporting while taking into account the constraints[3], long-term fiscal sustainability information will usually include the following components:

(a) Projections of future inflows and outflows, which can be displayed in tabular statements or graphical formats, and a narrative discussion explaining the projections (see paragraphs 21–26 and 56);

(b) A narrative discussion of the dimensions of long-term fiscal sustainability including any indicators used to portray the dimensions (see paragraphs 27–40 and 57); and

(c) A narrative discussion of the principles, assumptions and methodology underlying the projections (see paragraphs 41–53 and 58).

18. The projections reported in long-term fiscal sustainability information generally reflect conditions of uncertainty. The projections are derived from models that rely on assumptions around which there is some uncertainty. In order for long-term fiscal sustainability information to faithfully represent an entity's projected future flows, assumptions used should be based on the best available information.

19. Long-term fiscal sustainability information may be published as a separate report or as part of another report. It may be published at the same time as the entity's GPFSs or at a different time.

20. A controlled entity should ensure that the information reported is consistent with information reported by its controlling entity.

Presenting Projections of Future Inflows and Outflows

21. An entity should present projections of future inflows and outflows, including capital expenditure. The projections should be prepared on the basis of current policy assumptions, and assumptions about future economic and other conditions.

22. An entity should assess the extent to which it can draw on the assumptions, projections and indicators prepared by other entities, such as Ministries of Finance, or from other sources of information, rather than preparing the information itself, as this can reduce the cost of reporting. Such an assessment considers whether such information meets the QCs. Where an entity has a budget or forecast that meets the definition of a projection, this information can be used for the relevant time period or periods.

23. Projections can be displayed in tabular statements or graphical formats providing details of the programs and activities giving rise to outflows and identifying the sources of inflows. In determining the format of tabular statements entities need to balance considerations of understandability and relevance. Presentation of a large number of time periods between the reporting date and the end of the time horizon provides a more complete information set, but increases the risk of information overload and the impairment of understandability.

24. An entity should ensure that its choice and presentation of projections is not skewed to present a misleadingly favorable or unfavorable picture. The formats and terms used should also be consistent between reporting periods.

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[2] The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports for accountability purposes and for decision-making purposes. See Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) for further details.

[3] The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information are materiality, cost-benefit and the balance between the qualitative characteristics. See Chapter 3 of the *Conceptual Framework* for further details.

Time Horizon

25. In selecting an appropriate time horizon an entity needs to balance the QCs of verifiability, faithful representation and relevance. The further the end of the time horizon is from the reporting date, the more future events are captured. However, as the time horizon increases, the assumptions underpinning the projections become less robust and potentially less verifiable. Conversely, excessively short time horizons may increase the risk that the consequences of events outside the time horizon may be ignored, thereby reducing the relevance of projections.

26. The length of the time horizon will reflect the characteristics of the entity. It is likely to be influenced by the characteristics of the entity, including aspects such as the longevity of key programs, the level of dependence on other entities for funding, the estimated lives of major items of property, plant, and equipment, such as infrastructure networks, and the time horizons adopted by other comparable entities providing prospective information.

Addressing the Dimensions of Long-Term Fiscal Sustainability

27. An entity reporting long-term fiscal sustainability information should include a narrative discussion on each of the dimensions of long-term fiscal sustainability. This RPG discusses three inter-related dimensions of long-term fiscal sustainability, as follows:

- Service;
- Revenue; and
- Debt.

28. The dimensions are inter-related as changes in one dimension affect the other dimensions. For example, future services and entitlements to beneficiaries (the service dimension) are funded by revenue and/or debt. A single dimension can be analyzed by holding the other two dimensions constant. For example, by holding the existing levels of services and revenues constant an entity can illustrate the effect of such assumptions on the level of debt. The relationships between the dimensions of long-term fiscal sustainability are illustrated in Appendix B.

29. There are two aspects to each dimension: capacity and vulnerability. Capacity is the ability of the entity to change or influence the dimension, and vulnerability is the extent of the entity's dependence on factors outside its control or influence.

30. An entity can use indicators to present the dimensions of long-term fiscal sustainability. An entity should choose its indicators based on their relevance to the entity. Examples of indicators are provided in the Glossary of Indicators in Appendix C.

Service Dimension

31. The service dimension considers the volume and quality of services to recipients and entitlements to beneficiaries over the period of the projections, given current policy assumptions on revenue from taxation and other sources, while remaining within debt constraints. This dimension focuses attention on the capacity of an entity to maintain or vary the volume and quality of services it provides or the entitlement programs it delivers. It also focuses attention on whether the entity is vulnerable to factors such the willingness of recipients and beneficiaries to accept reductions in services and entitlements or vulnerable because it does not have the ability to determine or vary service levels, for example where another level of government determines the level of services to be provided.

32. By reflecting the impact of current policy assumptions on revenue from taxation and other sources, and on debt, long-term fiscal sustainability information can present the amounts available for the provision of goods

and services. Users can contrast this information with the entity's service delivery commitments, and thereby evaluate the sustainability of the provision of services.

33. A factor to consider in making such comparisons is the extent to which expenditure on certain programs is likely to increase more steeply than the overall levels of expenditure of the entity. This may be because the number of beneficiaries is projected to increase for a particular program or because costs associated with certain programs, such as healthcare, are projected to increase more quickly than the general inflation rate. For example, due to demographic and technological changes, the cost of healthcare as a proportion of overall government expenditures might be projected to increase over the period of projections.

34. For capital intensive activities the service dimension also involves an assessment of the useful lives and replacement cycles of items of property, plant, and equipment.

Revenue Dimension

35. The revenue dimension considers taxation levels and other revenue sources over the period of the projections, given current policy assumptions on the provision of services to recipients and entitlements for beneficiaries, while remaining within debt constraints. This dimension focuses attention on the capacity of an entity to vary existing taxation levels or other revenue sources or introduce new revenue sources. It also focuses attention on factors such as whether the entity is vulnerable to the unwillingness of taxpayers to accept increases in taxation levels, and the extent of its dependence upon revenue sources outside its control or influence.

36. An example of an indicator of the revenue dimension is the proportion of total revenues that are received from entities at other levels of government or from international organizations. For example, a local government entity may be able to maintain or increase property taxes, but be partially dependent upon a mixture of general grants and specific grants from national and/or state governments. As policies for the provision of services and for managing debt are projected, the level of revenue required to fund such policies can be presented. This information assists users in assessing the entity's ability to maintain or increase its levels of revenue and thereby in evaluating the sustainability of its sources of revenue.

37. Generally, an entity which has a limited ability to vary levels of revenue from taxation and other sources is likely to be highly dependent upon funding decisions by entities at other levels of government. If inter-governmental transfers have constitutional or other legal underpinning, this may make the entity less susceptible to sudden adverse funding decisions by other entities and therefore increase the probability of continuing to receive stable revenues. This information assists users in assessing the entity's vulnerability to decisions outside its control.

Debt Dimension

38. The debt dimension considers debt levels over the period of the projections, given current policy assumptions on the provision of services to recipients and entitlements for beneficiaries, and revenue from taxation and other sources. This dimension focuses attention on the capacity of the entity to meet its financial commitments as they come due or to refinance or increase debt as necessary. It also focuses attention on whether the entity is vulnerable to market and lender confidence and interest rate risk.

39. The level of net debt is important for an assessment of the debt dimension, as, at any reporting date, it represents the amount expended on the past provision of goods and services that has to be financed in the future. Therefore, this indicator is likely to be relevant for many entities. By projecting current policy assumptions for the provision of goods and services, and for revenue from taxation and other sources, projected levels of net debt can be presented. This information assists users in assessing the entity's ability to meet its financial commitments as they come due or to maintain, refinance or increase its levels of debt and thereby evaluate the sustainability of the entity's debt.

40. At national levels a factor to consider in presenting such projections is whether to distinguish between: (a) the primary balance, which is total projected government spending, excluding interest payable on debt, minus tax revenues, and (b) the overall balance, which is the primary balance including outflows related to interest payable on debt. At sub-national levels or for international organizations the focus may be on net debt as a percentage of total revenues. Increases in this indicator show that an increasing proportion of revenues will be required for debt servicing, thereby diverting resources from service delivery, and that the projected level of an entity's debt may be unsustainable.

Principles and Methodologies

Updating Projections and Frequency of Reporting

41. While regular updates are desirable, this RPG acknowledges that annual updating may not be realistic for all entities. However, there is generally an inverse relationship between the robustness of assumptions on which projections are made and the amount of time since they were made. During periods of global financial volatility the risk of projections made some time before the reporting date becoming outdated increases, with a consequent reduction of the ability of such information to meet the objectives of accountability and decision making. In this situation, an entity should consider updating its projections on a more frequent basis. An entity should also consider updating its projections after significant or major unexpected events such as natural disasters or other emergencies.

Impact of Legal Requirements and Policy Frameworks

42. In some jurisdictions reporting long-term fiscal sustainability information is governed by a legal or regulatory framework that applies at the national or state level or through international arrangements. There may also be legal requirements for local government. These might include balanced budget requirements. These requirements are likely to specify or otherwise affect the principles, assumptions and methodologies an entity should use in calculating and disclosing its projections.

Current Policy, Demographic and Economic Assumptions

43. Where flows for particular programs and activities are individually modeled, the policy assumptions should be based on the continuation of current legislation or regulation with departures where appropriate. Those assumptions (referred to as "current policy assumptions") should be applied consistently through-out the entire projection period. The starting point for current policy assumptions should be legislation or regulation currently in force. However, there may be instances where a departure from current legislation or regulation may be appropriate, for example:

(a) Where changes to current legislation or regulation have been enacted before the reporting date, and where those changes have a specific implementation date within the time horizon of the projections;

(b) Where the provisions in current legislation or regulation are internally inconsistent; or

(c) Where current legislation or regulation has a termination date, e.g., "sunset provisions".

44. Current policy assumptions may be affected by legal changes that have been enacted before the reporting date, which have a specific implementation date within the time horizon of the projections. In these circumstances, assuming current legislation or regulation remains in force for the entire projection period will not be appropriate.

45. An example of current legislation or regulation that is internally inconsistent is a social security program which has legal provisions that make it unlawful to make payments once an earmarked fund is exhausted, although entitlements of beneficiaries will continue after the exhaustion of that fund. Assuming that the fund will not meet obligations once it is exhausted might reflect a strict legal position, but an entity may need to assess

whether the presentation of projections on such a basis underestimates projected outflows and therefore the extent of the fiscal challenge facing the social security program. In this situation an entity may calculate its projections based on current policy assumptions despite legal restrictions.

46. Current legislation or regulation may have a termination date, e.g., sunset provisions, whereby it terminates after a specific period. In many cases there may be a strong probability that such programs will be replaced by similar programs. Adopting a strict legal termination principle could underestimate projected outflows, and therefore impair the usefulness of the information.

Approach to Revenue Inflows

47. Significant revenue inflows from taxation and other sources, such as inter-governmental transfers, may be individually modeled based on current policy assumptions. Significant sources of taxation and other revenue inflows that are not modeled individually are projected to grow (or diminish) in relation to a variable such as gross domestic product (GDP) or a specified inflation index.

48. Other revenue inflows, such as royalties from natural resources, may also be projected to grow in line with GDP or an index. They may also be individually modeled to address specific circumstances, such as when the natural resource is expected to be depleted.

Approach to Age-Related and Non-Age-Related Programs

49. Age-related programs are often subject to eligibility criteria such as age and other demographic factors. In making projections, programs and activities that are age-related may be distinguished from non-age- related programs. Age-related programs may be individually modeled while non-age-related programs may be projected to increase in line with other variables, such as GDP, or to be constant in real terms. Such an approach to non-age-related programs provides some flexibility, as it allows above GDP/real terms increases in some programs and activities to be offset by lower increases or spending declines in other areas.

Demographic and Economic Assumptions

50. Demographic assumptions are likely to include fertility, mortality and migration rates, and workforce participation rates. Economic assumptions are likely to include economic growth rates and inflation. Other economic assumptions may include environmental factors, such as the impact of the depletion and degradation of ecosystems and the depletion of water and finite natural resources on economic growth.

Reasonableness of Assumptions

51. Projections of inflows and outflows should be based on current policy assumptions and economic and demographic assumptions, which are reasonable in the context of the factors discussed in paragraph 18.

Inflation and Discount Rates

52. There are two main approaches to incorporating the effect of price inflation in projections. Inflation may be taken into account in making projections or projections may be made at current prices (i.e., prices prevailing at the reporting date). If the projections include inflation, then the discount rate should also include inflation. If the projections are at current prices, the discount rate should exclude inflation.

Sensitivity Analysis

53. Many assumptions on which projections are based are inherently uncertain. In some cases small changes in variables can have significant impacts on the projections. The use of sensitivity analysis will help users to understand the impact of significant changes in demographic and economic assumptions on the projections.

Disclosures

54. The entity should disclose information that enables users of its long-term fiscal sustainability information to assess the projected long-term fiscal sustainability of the entity. An entity should make any additional disclosures necessary to meet the objectives of financial reporting.

55. An entity should disclose the following information:

    (a) The name of the entity;

    (b) The financial statements to which the long-term fiscal sustainability information relates;

    (c) Where different, the names of the entities within the reporting boundary for long-term fiscal sustainability information that are different to those for the financial statements;

    (d) Where the entity is a controlled entity, the identity of the controlling entity;

    (e) The date at which a full set of projections was made;

    (f) The basis and timing of subsequent updating of that full set of projections; and

    (g) When an entity uses projections and indicators prepared by other entities or from other sources of information, the names of those entities or other sources, and the information that has been used.

56. The narrative discussion of the projections should include disclosure of the following information:

    (a) The sources of significant revenue inflows from taxation and other sources;

    (b) An overview of the current policy assumptions for significant revenue inflows from taxation and other sources, such as taxation threshold levels and allowances;

    (c) The sources of significant outflows including capital expenditure;

    (d) An overview of the current policy assumptions for the significant outflows including capital expenditure;

    (e) Whether the projections are modeled individually or in aggregate;

    (f) An explanation of the changes in projections between reporting dates and the reasons for those changes;

    (g) An explanation that projections are not forecasts and that it is unlikely that projections over the specified time horizon will match the actual outcome and the extent of the difference will depend upon a range of factors, including the future actions of the entity in meeting any identified fiscal challenge;

    (h) An explanation of any modifications of formats between reporting periods and the reasons for such changes;

    (i) The time horizon used for the projections and the reasons for selecting that time horizon; and

    (j) Where an entity changes the time horizon from that used in the previous reporting period, the reason for such a change.

57. The narrative discussion of the dimensions of long-term fiscal sustainability should include disclosure of the following information:

    (a) An analysis of significant changes in the indicators compared with those of the previous reporting period;

    (b) Changes in the indicators used to report long-term fiscal sustainability information from the previous reporting period, and the reasons for such changes; and

(c) Where an entity uses indicators that are based on amounts derived from non-IPSAS-based information and the indicators affected.

58. An entity should disclose the principles, assumptions and methodology that underpin the projections including the following information:

(a) Key aspects of governing legislation and regulation;

(b) Underlying macro-economic policy and fiscal frameworks, including details of where other publicly available reports on these policies and frameworks can be accessed, including documents outside the GPFRs;

(c) The key current policy assumptions and the key demographic and economic assumptions that underpin the projections;

(d) Its policy for reviewing and updating current policy assumptions and, demographic and economic assumptions;

(e) An explanation of any significant current policy assumptions that depart from current legislation or regulation;

(f) An explanation of significant changes in the principles, assumptions and methodologies from the previous reporting period, the nature and extent of these changes, and the reasons for such changes;

(g) The results of any sensitivity analyses that could have a significant impact on the projections;

(h) The discount rates applied and the basis on which the discount rate has been determined; and

(i) The approach to inflation and the reason for this

Appendix A

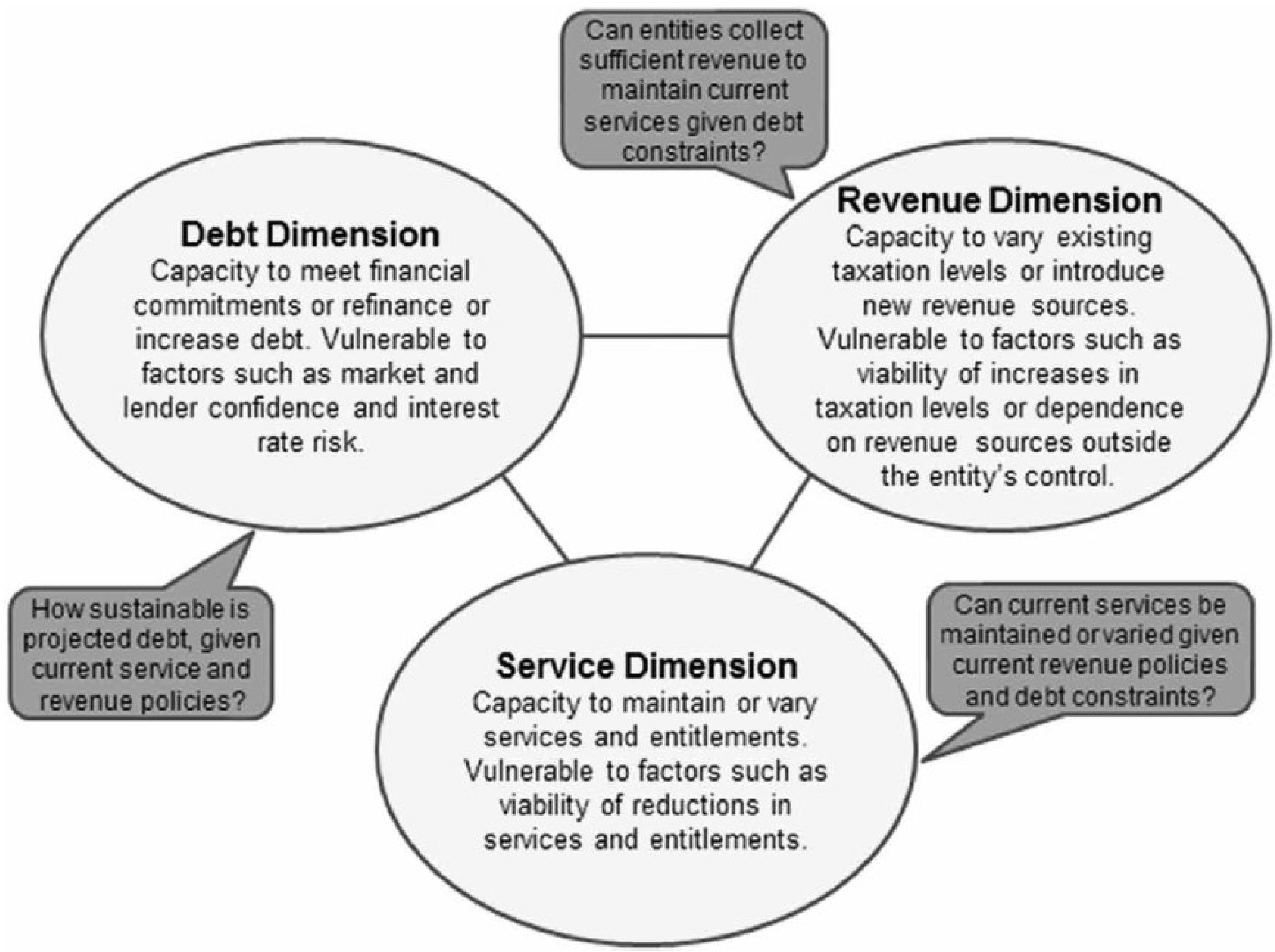
Terms in this RPG Defined in IPSAS

Term	Definition
Assets	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.
Cash	Comprises cash on hand and demand deposits.
Cash equivalents	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.
Controlled entity	An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).
Controlling entity	An entity that has one or more controlled entities.
General government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting.
Liabilities	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.
Reporting date	The date of the last day of the reporting period to which the financial statements relate.
Revenue	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.

Appendix B

Relationships Between the Dimensions of Long-Term Fiscal Sustainability

This Appendix illustrates the two aspects (capacity and vulnerability) of each of the three dimensions and the relationship between the three dimensions.



Appendix C

Glossary of Indicators

This Appendix lists examples of indicators. It is not intended to be an exhaustive list.

Government Finance Statistics Reporting Guidelines

Where an indicator includes a defined term, that term is shown in italics and its definition is shown after the indicators.

- **Gross debt, total**: Total gross debt—often referred to as "total debt" or "total debt liabilities"—consists of all *liabilities* that are *debt instruments*. A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.[4]
- **Net debt:** Net debt is calculated as gross debt minus *financial assets* corresponding to debt instruments.[4]
- **Net financial worth:** Net financial worth of an *institutional unit* (or grouping of units) is the total value of its *financial assets* minus the total value of its outstanding *liabilities*.[4]
- **Net worth:** Net worth of an *institutional unit* (or grouping of units) is the total value of its *assets* minus the total value of its outstanding *liabilities*.[4]
- **Overall balance:** This term corresponds to the GFS 1986 terminology of "Overall Deficit/Surplus," which is defined as revenue plus grants received less expenditure less "lending minus repayments." The balance so defined is equal (with an opposite sign) to the sum of net borrowing by the government, plus the net decrease in government cash, deposits, and securities held for liquidity purposes. The basis of this balance concept is that government policies are held to be deficit- or surplus-creating, and thus the revenue or expenditures associated with these policies are "above the line." Borrowing or a rundown of liquid assets, however, is deficit financing or "below the line." It should be noted that the term "lending minus repayments" included above the line covers government transactions in debt and equity claims on others undertaken for purposes of public policy rather than for management of government liquidity or earning a return.[5]
- **Primary balance:** The overall balance, excluding interest payments. Since interest payments represent the cost of past debt, and the determinants of future debt that are under policy control of government are other spending and revenue measures exclusive of interest payment, the primary balance is of particular importance as an indicator of the fiscal position in countries with high levels of debt.[5]

Underlying Definitions

- **Debt instrument:** A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.[4]
- **Economic assets:** Economic assets are entities (i) over which economic ownership rights are enforced by institutional units, individually or collectively, and (ii) from which economic benefits may be derived by their owners by holding them or using them over a period of time.[4]
- **Financial assets:** Financial assets consist of financial claims plus gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability.[6]

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[4] Source: International Monetary Fund: Public Sector Debt Statistics—Guide for Compilers and Users 2011.

[5] Source: International Monetary Fund: Manual on Fiscal Transparency (2007).

[6] Source: International Monetary Fund: Public Sector Debt Statistics—Guide for Compilers and Users 2011.

- **Institutional unit:** An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities.[6]
- **Liability**: A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor).[6]

Other Sources

- **Fiscal gap**: The fiscal gap is the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP).[7] More specifically, the fiscal gap is the net present value of projected spending[8] minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at or below the target percentage of GDP for the stated projection period. (Source: US Federal Accounting Standards Advisory Board: Statement of Federal Financial Accounting Standards 36: *Comprehensive Long-Term Projections for the U.S. Government* 2009).
- **Inter-temporal budget constraint:** The inter-temporal budget constraint is satisfied if the projected outflows of the government (current public debt and the discounted value of all future expenditure, including the projected increase in age-related expenditure) are covered by the discounted value of all future government revenue. (Source European Commission: *Sustainability Report:* 2009).
- **Net Debt/Total Revenues**: Net debt as a proportion of total revenues. (Source Canadian Public Sector Accounting Board (PSAB): Statement of Recommended Practice 4 (SORP 4), *Indicators of Financial Condition: 2009*).

[7] GDP is the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports-imports).

[8] Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest ("non-interest spending").

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 1.

Background

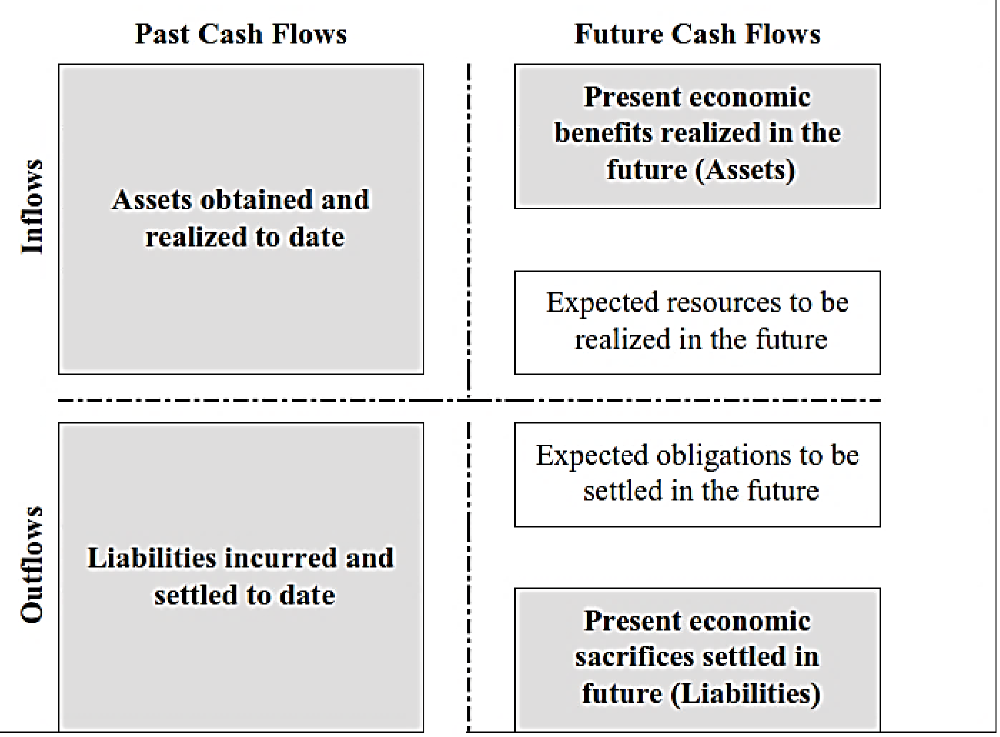
BC1. The IPSASB initially launched a project on accounting for social policy obligations (subsequently re-termed social benefits) in 2002. This led to the publication of an Invitation to Comment (ITC), *Accounting for Social Policies of Governments*, in January 2004. Following an analysis of responses to that ITC, the IPSASB began to develop proposals for accounting for obligations related to different sub-categories of social benefits. In late 2006, due to failure to agree on recognition points and measurement requirements for liabilities, the IPSASB decided not to develop further proposals on recognition and measurement at that time.

BC2. As an interim step the IPSASB developed proposals for the disclosure of amounts to be transferred to those eligible at the reporting date for cash transfers (benefits settled in cash). It expressly did not propose the disclosure of obligations and liabilities. ED 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, was issued in March 2008.

BC3. The deliberations on identifying the point at which liabilities for social benefits arise had led the IPSASB to the view that the financial statements cannot provide all the information that users need on social benefits. This is illustrated in Exhibit One below where the shaded boxes indicate information provided in the financial statements. The IPSASB considered that before launching any further project it should consult constituents. Therefore the IPSASB raised this issue in a further Consultation Paper, *Social Benefits: Issues in Recognition and Measurement,* and issued a Project Brief, *Long-Term Fiscal Sustainability* Reporting. Both these documents were issued at the same time as ED 34.

Exhibit One

Supplementing Information provided in the Statement of Financial Position



BC4. In October 2008 the IPSASB reviewed responses to all of the above documents. In the light of these responses, it was decided not to develop ED 34 into an IPSAS. The IPSASB also noted that a large majority of respondents agreed that the financial statements cannot convey sufficient information to users about the long-term financial implications of governmental programs providing social benefits.[9] In light of this view the IPSASB decided to initiate a project on long-term fiscal sustainability (subsequently re-termed *"Reporting on the Long-Term Sustainability of Public Finances*"). This led to the issue of a Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances*, in November 2009. Drawing on existing practice the Consultation Paper put forward the case for reporting long-term fiscal sustainability information, made suggestions on how such information might be presented and sought the views of constituents. The majority of respondents to the Consultation Paper favored the continuation of the project, although many said that they preferred the IPSASB to develop guidelines rather than requirements.

BC5. In light of the responses to the Consultation Paper, the IPSASB developed ED 46.RPG, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*, which was issued in October 2011. This ED proposed non-authoritative guidance for public sector entities reporting long-term fiscal sustainability information.

BC6. The IPSASB has further developed its thinking on reporting long-term fiscal sustainability information in the course of its project on The Conceptual Framework for *General Purpose Financial Reporting by Public Sector Entities* and, in particular, in Chapter 2 of that Framework. Chapter 2: Objectives and Users of *General Purpose Financial Reporting* reflects the view that, although the financial statements are at the core of financial reporting, a more comprehensive scope is necessary to meet the needs of users. That scope includes prospective financial information. The IPSASB has also noted that projected outflows relating to obligations as a result of past decisions and projected inflows related to sovereign powers and taxation powers may not be recognized or may only be partially recognized in the statement of financial position and the statement of financial performance. Therefore, in order to meet the financial reporting objectives of accountability and decision making, an entity should provide users with information on future inflows and outflows that supplements information on the entity's financial position in the financial statements.

BC7. The IPSASB acknowledges that the rationale for reporting long-term fiscal sustainability information in paragraph BC6 might indicate that for some entities such reporting should be required. However, the IPSASB concluded that it would be premature to issue an authoritative pronouncement, because reporting long-term fiscal sustainability information in GPFRs is an area where practice is developing and the IPSASB wishes to encourage innovative and flexible approaches. This approach is consistent with the views of the majority of respondents to ED 46. The IPSASB notes that paragraph 4 of the RPG notes that it is good practice to follow this RPG.

Completion of the Conceptual Framework and the Social Benefits projects

BC7A. The IPSASB recognized linkages between its work in developing RPG 1, the Conceptual Framework and accounting for social benefits. RPG 1 was published in 2013 when the work on the Conceptual Framework and Social Benefits projects were ongoing. In October 2014 and January 2019, the IPSASB finished these projects by publishing the Conceptual Framework and IPSAS 42, Social Benefits, respectively.

Scope

BC8. The IPSASB considered whether the scope of the RPG should be limited to the consolidated national and whole-of-government levels. The IPSASB acknowledged that reporting long-term fiscal sustainability information is particularly relevant at these levels, but concluded that there might be significant user demand for such

[9] Further work on proposals for the recognition and measurement of liabilities arising from obligations to deliver social benefits has progressed indirectly in Phase 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* project. This phase deals with elements, and includes the development of the definition of a liability and other relevant issues such as whether the power to tax is an asset. This work is likely to influence the approach to recognizing and measuring liabilities related to social benefits. The IPSASB decided to reactivate its project on social benefits at its June 2013 meeting.

information at sub-national levels. The IPSASB therefore concluded that a narrow scope limited to the national and whole-of-government levels is not justified. The factors considered by the Board in determining whether an entity should report long-term fiscal sustainability information are discussed in paragraphs BC14-BC17.

Definitions

Long-Term Fiscal Sustainability

BC9. The Consultation Paper noted that there is no universally accepted definition of long-term fiscal sustainability and included a working definition that long-term fiscal sustainability is "the ability of government to meet its service delivery and financial commitments both now and in the future." The IPSASB acknowledged the view that this definition is insufficiently rigorous and that a definition should be adopted that provides users with a clearer indication whether an entity's current economic position is sustainable. Such an approach might involve (a) linking current service delivery obligations to the maintenance of current taxation levels and (b) focusing on projected debt paths. An entity that can only meet current service delivery obligations and financial obligations by increasing taxation or current debt levels is identified as being in an unsustainable position. Macro-economists tend to adopt this more rigorous approach and focus on "explosive" debt paths, which is a term that connotes that existing service levels and existing benefits from entitlement programs cannot be sustained without major increases in levels of indebtedness.

BC10. When this RPG was issued, the IPSASB decided to retain the definition of long-term fiscal sustainability used in the Consultation Paper for ED 46 and subsequently for this RPG, except for widening the scope to reflect that it can apply to all public sector entities (except [Government Business Enterprises]) (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) rather than limiting it to governments. In coming to this conclusion the IPSASB noted the need for governments and public sector entities to both (a) provide services and meet obligations relating to entitlement programs and (b) meet financial obligations, principally debt servicing. The IPSASB also noted that many governments have sovereign powers to enact legislation for new taxation sources and to vary the levels of existing taxation, while acknowledging that in a global environment the ability to increase taxation might be practically constrained by a number of considerations. The IPSASB took the view that, provided an entity gives appropriate attention to the dimensions of long-term fiscal sustainability, as explained in paragraphs 27–40, users will be given adequate information about whether an entity can maintain existing service levels, meet obligations to the current and future beneficiaries of entitlement programs and meet financial obligations without increasing revenue from taxation and other sources or increasing borrowing.

Projections, Forecasts and Budgets

BC11. Several respondents to ED 46 suggested that the relationship between projections, forecasts and budgets should be clarified. Given that there are no universally accepted definitions of these terms, the IPSASB decided to develop a definition of a projection to clarify the characteristics of information that should be used in calculating the projections and to ensure that only calculations that meet these characteristics are within the scope of the RPG.

BC12. In developing its definition of a projection the IPSASB considered whether forward-looking financial information should be based on a strict adherence to legislation or regulation in force at the reporting date, or whether specific departures from legislation or regulation in force at the reporting date might be appropriate. The IPSASB recognized that there may be limited cases where departures from current legislation or regulation may be appropriate in order to provide more relevant information. A projection is therefore defined as "forward-looking financial information prepared on the basis of the entity's current policy assumptions, and assumptions about future economic and other conditions." Current policy assumptions are those "assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances." Circumstances where departures from current legislation or regulation are appropriate are detailed in paragraph 43 and discussed in paragraphs BC31-34.

BC13. Budgets and forecasts aim to provide details of intended outcomes. In contrast projections are not intended to provide approximations of actual outcomes. A budget is a plan of an entity's anticipated revenues or receipts and anticipated expenses or expenditure over a specified period. It may be related to service outputs or outcomes in the period. A forecast provides prospective information that includes anticipated actions and interventions by the entity although these may not be reflected in current legislation or regulation or within the limited departures inherent in the definition of a projection. The IPSASB agreed that some of the information in budgets or forecasts might also be used for projections.

Determining Whether to Report Long-Term Fiscal Sustainability Information

BC14. As discussed in paragraph BC8 the IPSASB concluded that the scope of the RPG should not be limited to particular levels of government. However, the IPSASB acknowledged that reporting long-term fiscal sustainability information might not be appropriate for all entities.

BC15. The Consultation Paper questioned whether reporting long-term fiscal sustainability information is appropriate for individual controlled entities. This reservation was based on a tentative view that (a) the cost of producing the information for such entities is likely to be greater than the benefits to users, (b) the production of separate reports and disclosures by individual entities within an economic entity might be confusing to users and (c) it could be misleading if entities with limited tax-raising powers and a dependence on resources from entities at other tiers of government provide projections that are contingent on taxation decisions over which they have little or no control. Some respondents to the Consultation Paper challenged this view and suggested that there are cases where users for long-term fiscal sustainability information of controlled entities can be identified. The example of a local government entity controlled by a state or provincial government was cited. These respondents proposed that the test for whether an entity reports long-term fiscal sustainability information should be to assess whether potential users exist for this type of information. The IPSASB was persuaded by these arguments and the RPG reflects these views in paragraphs 12 and 13.

BC16. The IPSASB acknowledged that direct evidence of the existence of users of long-term fiscal sustainability information might not be readily available. The IPSASB sought to identify characteristics which might indicate the existence of users across the three dimensions of long-term fiscal sustainability. The IPSASB had reservations about whether there would be significant numbers of users to justify the costs of reporting if entities did not have one or more of the following characteristics:

(a) Significant tax and/or other revenue raising powers;

(b) Powers to incur significant debt; or

(c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.

BC17. The IPSASB believes that reporting long-term fiscal sustainability information is likely to be relevant at the whole of government level, consolidated national level, and for major sub-national entities such as regions, provinces, states and large local government entities (for examples, cities), which have tax raising powers enabling them to generate a significant proportion of their total revenues. The IPSASB remains of the view that reporting long-term sustainability information is unlikely to be appropriate for individual government departments and entities. This is because often they do not have tax raising powers, their expenditure is controlled through appropriations, and they do not have powers to incur debt.

Presenting Projections of Future Inflows and Outflows

BC18. The Consultation Paper considered three models for reporting long-term fiscal sustainability information and suggested that (a) the provision of additional statements providing details of projections and (b) summarized projections in narrative reporting were appropriate. Some respondents suggested that, although the Consultation Paper acknowledged that these reporting approaches were not mutually exclusive, the IPSASB should highlight that reporting long-term fiscal sustainability information just by displaying projections in statements is insufficient to meet user needs and that other presentation methods need to be deployed. The IPSASB was persuaded by this view and agreed to reflect this in paragraph 17 of the RPG).

BC19. The IPSASB considered whether it should recommend time horizons for projections for entities at particular levels of government. It acknowledged the view that standard time horizons for particular types of public sector entity might enhance comparability. The IPSASB decided that such benchmarks would be over-prescriptive and impractical. The scope of the RPG is such that standard time horizons would have to be determined for a wide range of entities, including individual reporting entities.[10] In addition the fiscal autonomy of entities at the same level of government can differ markedly between jurisdictions. The IPSASB concluded, however, that it is good practice for entities to explain the reason for the time horizons that they select. The IPSASB considers that the extent of an entity's dependence on other entities for funding will have an impact on time horizons; the higher the level of dependence, the higher the likelihood of shorter time horizons.

BC20. The Consultation Paper included illustrative examples of tabular statements showing 75 year projections for key programs and activities. The IPSASB noted the view of some respondents that a focus on the position at the end of the time horizon may obscure events between the reporting date and the end of the time horizon. The IPSASB accepted this view and included guidance on the need to balance the QCs of verifiability, faithful representation and relevance in displaying projections in paragraph 25 of the RPG.

Addressing the Dimensions of Long-Term Fiscal Sustainability

BC21. The IPSASB considered that providing a flexible framework for the disclosure of information might help entities to organize the way in which they communicate information and ensure that information is a faithful representation of an entity's long-term fiscal sustainability information.

BC22. ED 46 included three dimensions of long-term fiscal sustainability, as follows:

- Fiscal capacity;
- Service capacity; and
- Vulnerability.

BC23. The description of vulnerability was derived from the definition of vulnerability in Statement of Recommended Practice 4 (SORP-4), *Indicators of Financial Condition* issued by the Canadian Public Sector Accounting Board (PSAB). The definition in SORP-4 is "the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others." The IPSASB considered that a variant of this notion is particularly important for entities at sub-national levels which have limited taxation powers and are therefore exposed to decisions, over which they have no or very limited control, taken by other entities at other levels of government.

[10] For example, such entities might include school boards or bodies responsible for water and drainage.

BC24. The descriptions of the other two dimensions in ED 46 were derived from the US Governmental Accounting Standards Board's (GASB)[11] definitions of "fiscal capacity" and "service capacity." The GASB defines fiscal capacity as "the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis" and service capacity as "the government's ability and willingness to meet its commitments to provide services on an ongoing basis."

BC25. When developing the RPG based on ED 46, the IPSASB considered whether the notion of vulnerability in the ED was too narrow and whether vulnerability is a more pervasive factor in the analysis of the long-term fiscal sustainability of an entity's finances. The IPSASB concluded that vulnerability is an aspect of all three dimensions. Therefore, the IPSASB decided to (a) explain how the notion of vulnerability affects each dimension of long-term fiscal sustainability and (b) change the name of the vulnerability dimension to the revenue dimension because its description relates to changes in revenues.

BC26. The IPSASB also noted that the dictionary definition of "fiscal" includes revenue[12] while the description of fiscal capacity relates to the ability of the entity to meet financial commitments, in other words, its ability to maintain and service its debt. Therefore the IPSASB decided that the name of this dimension should be changed to the debt dimension to more closely reflect the description. The renaming of these two dimensions required a modification to the service capacity dimension so that the wording of the three dimensions is consistent. The IPSASB acknowledged that the dimensions are inter-related.

BC27. The IPSASB noted that the approach taken by the PSAB and the GASB had similarities to the "dimensions" of sustainability developed by Allen Schick[13] and discussed in the Consultation Paper.

BC28. One of the dimensions that Schick discussed was "economic growth." The IPSASB considered that explicitly introducing a dimension of economic growth was inappropriate because the determinants of economic growth are complex and not under the control of the reporting entity. However, assumptions about economic growth will be critical to the development of projections and are likely to feature heavily in sensitivity analyses.

Principles and Methodologies

BC29. The Consultation Paper discussed the principles that should be adopted for the inclusion of programs and activities in reporting long-term fiscal sustainability information and methodologies central to the outcome of projections. The areas addressed included whether projections should be based on current or future policy, the approach to revenue inflows, the approach to age-related and non-age-related programs and the approach to sensitivity analysis. The IPSASB considered whether, in order to meet the qualitative characteristic of comparability, the IPSASB should make firm recommendations on good practice.

BC30. The IPSASB did not consider it appropriate to make firm recommendations on good practice because (a) the scope of the RPG includes all public sector entities and practice that is appropriate at one level of government may not be suitable elsewhere in the public sector, (b) while reporting long-term fiscal sustainability information has become a feature of financial management in an increasing number of jurisdictions it is at an early stage of development and (c) it is not the intention of the IPSASB to usurp the role of other professional groups with expertise in this area. In some cases the IPSASB has considered it appropriate to express a view on a preferred high level approach. For example, the IPSASB has taken the view that projections are likely to be most useful when they are based on current policy assumptions and encompass both inflows as well as outflows. The IPSASB also noted that, at the national level, the Organisation for Economic Cooperation and Development has recommended that projections should be updated on an annual basis.

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11 Preliminary Views of the Governmental Accounting Standards Board on Major Issues related to Economic Condition Reporting: Financial Projections. (Governmental Accounting Standards Board: Norwalk, CT, USA, November 2011).

12 The definition of fiscal is "of or relating to taxation, public revenues, or public debt" (Webster's Ninth New Collegiate Dictionary, 1984).

13 Allen Schick, Sustainable Budget Policy: Concepts and Approaches (OECD: Paris, 2005).

Current Policy Assumptions

BC31. Paragraphs 40–42 of ED 46 explained that an entity can depart from using current policy to calculate its projections (a) where there is a conflict between current policy and legal obligations and (b) where a policy has "sunset provisions."

BC32. The IPSASB introduced the term "current policy assumptions" to clarify that current policy means current legislation or regulation with departures where appropriate. Current policy assumptions are applied to the entire projection period for inflows or outflows that are individually projected. The RPG gives examples of where a departure may be appropriate in paragraphs 44-46. The IPSASB noted that paragraph 58(e) of the RPG recommends that any departures from current legislation or regulation be disclosed together with the reasons for such departures.

BC33. A respondent to ED 46 raised a concern that the concept of current policy should be broader than that proposed in the ED to deal with issues such as fiscal drag. Fiscal drag refers to the phenomenon that income tax inflows grow faster than the income it is levied on because, as an individual's income grows, an increasing proportion of it is taxed at a higher rate. Fiscal drag occurs if the rates and thresholds for the taxation of individuals are not adjusted over time, and is often addressed by governments through periodic increasing of tax thresholds.

BC34. The IPSASB concluded that the issue of fiscal drag is addressed in paragraph 47 of the RPG because it permits current policy assumptions to be applied to the demographic and economic assumptions, including assumptions over inflation. When a flow such as tax is modeled it may be based on a percentage of a variable such as GDP or reflect the application of current policy assumptions to the changing circumstances reflected in the demographic and economic assumptions.

Revision of RPG 1 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC35. 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 RPG 1 as a result of *Improvements to IPSAS, 2021*

BC36. Stakeholders noted that the Basis for Conclusions (paragraphs BC1-BC7) in RPG 1 provided a background that highlighted the linkages between RPG 1, the Conceptual Framework and Social Benefits projects. RPG 1 indicated these projects as ongoing when RPG 1 was issued in July 2013. Since these projects have been completed, the IPSASB agreed to add paragraph BC7A in *Improvements to IPSAS, 2021* to indicate that the Conceptual Framework and Social Benefits projects were completed in October 2014 and January 2019, respectively.

Additional Guidance for RPG 1 as a result of *Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative*

BC37. In March 2022, the IPSASB decided to address an urgent stakeholder concern by adding the limited scope project, Reporting Sustainability Program Information. The project responded to the need to provide public sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPG) to reporting sustainability program information in general purpose financial reports.

BC38. To clearly communicate the applicability of RPG 1, the IPSASB decided to add non-authoritative guidance to RPG 1 to demonstrate how the authoritative guidance should be applied when reporting on sustainability program information. The IPSASB decided to highlight that the principles and guidance in RPG 1 are relevant for an entity to report the financial impacts of sustainability programs and that they should be included when developing its overall financial projections.

BC39. The IPSASB decided to add IG1-IG3 to communicate:

(a) That RPG 1 applies to reporting sustainability program information and its financial impact on the long-term sustainability of an entity's finances;

(b) How sustainability program's impacts on the dimensions of long-term fiscal sustainability should be assessed; and

(c) The principles applicable for reporting on sustainability program information.

BC40. The IPSASB agreed that IPSAS should be applied to capture the impact of an entity's sustainability-related transactions in general purpose financial statements. RPG 1 provides guidance on disclosures in general purpose financial reports on the overall financial impact of government programs, including programs related to sustainability, on an entity's long-term financial projections.

BC41. The IPSASB considered whether paragraph 4 should be amended to remove the statement that RPG 1 was not designed for reporting on environmental sustainability. The IPSASB decided not to amend paragraph 4 because RPG 1 does not address broad environmental sustainability reporting. However, the second sentence in paragraph 4 makes clear, RPG 1 reporting captures the financial impact of environmental factors and notes that these should be taken into account when developing an entity's long-term financial projections.

BC42. ED 83, *Reporting Sustainability Program* Information received strong support from constituents on its proposed implementation guidance. Constituents suggested minor modifications to the proposals to better align them with the authoritative guidance. Some constituents proposed changes beyond the limited scope of ED 83, such as developing a definition of 'sustainability' or 'sustainability program information'. This project introduced amendments to highlight the applicability of existing concepts and principles in RPG 1 that reporting entities can apply when reporting on sustainability program information. The IPSASB decided that recommendations on the broader scope of sustainability reporting in the public sector were beyond the scope of this project.

Implementation Guidance

This guidance accompanies, but is not part of, RPG 1, Reporting on the Long-Term Sustainability of an Entity's Finances.

Does RPG 1 apply to reporting information on the impact of sustainability programs on an entity's overall finances?

IG1. Yes, RPG 1 provides principles to apply when reporting on an entity's overall long-term fiscal sustainability, including those relating to sustainability programs, provided that the respective inflows and outflows are included when developing projections.

How should sustainability program impacts on the dimensions of long-term fiscal sustainability be assessed?

IG2. RPG 1, paragraph 27 discusses three inter-related dimensions of long-term fiscal sustainability:

- Service;
- Revenue; and
- Debt

Sustainability programs can impact all of these dimensions in terms of future inflows and outflows. The impacts of sustainability programs should therefore be modelled and included in the overall projections based on assumptions regarding current policies, and about future demographic and economic conditions. Depending on the purpose of the report, and their significance, the impacts of such programs can either be presented separately or as part of the overall totals.

Which principles should be applied when reporting on the impacts of sustainability programs?

IG3. All of the guidance in RPG 1 should be applied when reporting on the projected future inflows and outflows associated with sustainability programs, including guidance related to policy, demographic and economic assumptions. Sensitivity analysis may be used to help users understand the impacts of significant changes in demographic and economic assumptions on the projections.

RPG 2—FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

History of RPG

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

RPG 2, *Financial Statement Discussion and Analysis* was issued in July 2013.

Since then, RPG 2 has been amended by the following IPSAS:

- *The Applicability of IPSAS* (Issued April 2016)

Table of Amended Paragraphs in RPG 2

Paragraph Affected	How Affected	Affected By
6	Deleted	*The Applicability of IPSAS* April 2016

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial position, financial performance and cash flows presented in the general purpose financial statements (hereafter referred to as "financial statements").

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity preparing and presenting financial statement discussion and analysis is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSAS).

3. Financial statement discussion and analysis should be presented at least annually and should use the same reporting period as that covered by the financial statements.

4. The reporting boundary for financial statement discussion and analysis should be the same as that used for the financial statements.

5. Financial statement discussion and analysis should be issued with the financial statements.

6. [Deleted]

7. Financial statement discussion and analysis should not be described as complying with this RPG unless it complies with all the requirements of this RPG.

8. In some jurisdictions, preparation and presentation of financial statement discussion and analysis is a legislative or regulatory requirement, or required by other externally imposed regulations. Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.

Definition

9. The following term is used in this RPG with the meaning specified:

   Financial statement discussion and analysis is an explanation of the significant items, transactions and events presented in an entity's financial statements and the factors that influenced them.

   Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSAS) are set out in Appendix A.

Identification of Financial Statement Discussion and Analysis

10. Financial statement discussion and analysis should be clearly identified, and distinguished from the financial statements and from other information.

11. Separate identification of financial statement discussion and analysis enables users to distinguish:

    (a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSAS;

    (b) Financial statement discussion and analysis prepared in accordance with this RPG; and

    (c) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSAS or recommendations in RPG (but could be the subject of guidance in other RPG).

12. Financial statement discussion and analysis should identify the financial statements to which it relates.

Presenting Financial Statement Discussion and Analysis

13. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight into the operations of the entity from the perspective of the entity itself. It also provides the opportunity to reflect the entity's interpretation of significant items, transactions and events affecting the financial position, financial performance and cash flows of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.

14. Information in financial statement discussion and analysis should meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs)[1].

Content of Financial Statement Discussion and Analysis

15. The content of financial statement discussion and analysis should be consistent with the financial statements and the underlying items, transactions and events, as well as assumptions such as those relating to recognition and measurement.

16. Financial statement discussion and analysis should include the following, without merely replicating information in the financial statements:

    (a) An overview of the entity's operations and the environment in which it operates;

    (b) Information about the entity's objectives and strategies;

    (c) An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance and cash flows; and

    (d) A description of the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties.

17. The form and specific content of an entity's financial statement discussion and analysis should reflect the nature of the entity and the regulatory environment in which it operates.

18. Where financial statement discussion and analysis includes information that is also in the financial statements, it should not merely repeat what is in the financial statements, but should analyze and explain how items, transactions and events affect the entity's financial position, financial performance and cash flows. Financial statement discussion and analysis should include cross-references to the financial statements where appropriate to avoid duplication of information.

Overview of the Entity's Operations and Environment

19. An overview of the entity helps users to understand the entity's operations and how the environment in which it operates affects its financial statements. This information assists users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior period, relating to:

    (a) The entity's mission and vision;

    (b) The entity's governance (e.g., legislative or regulatory structure, management structure);

[1] The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information are materiality, cost-benefit and the balance between the qualitative characteristics. See Chapter 3 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* for further details.

(c) The entity's relationships with other entities, with a focus on relationships that could significantly affect the entity's financial position, financial performance and cash flows (e.g., funding arrangements);

(d) External trends, events and developments in the legal, regulatory, social, political and macro-economic environment specific to the entity, which have or may have a significant impact on the entity's financial position, financial performance and cash flows (e.g., the impact of events in international markets on employment, the tax base, or interest rates); and

(e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

Information about the Entity's Objectives and Strategies

20. Financial statement discussion and analysis should discuss the entity's objectives and strategies relating to its financial position, financial performance and cash flows in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies. For example, such objectives and strategies could include managing surplus/deficit, and managing the levels of debt and reserves. Financial statement discussion and analysis should explain how achievement of the entity's objectives would be measured and over what time period progress would be measured.

21. Financial statement discussion and analysis should discuss significant changes in an entity's objectives and strategies from the previous period or periods.

Analysis of the Entity's Financial Statements

22. Financial statement discussion and analysis should include an analysis of significant changes and trends in an entity's financial position, financial performance and cash flows. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position, financial performance and cash flows and changes in financial position, financial performance and cash flows over a period of time.

23. Financial statement discussion and analysis should describe the significant items, transactions and events that have affected the financial position, financial performance and cash flows, without simply reiterating the information presented in the financial statements. Judgment is required in identifying the significant items, transactions and events.

24. If information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact should be disclosed along with the nature of and reasons for the adjustments. When financial performance measures are derived from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IPSAS.

25. Comparative information should be disclosed for amounts presented in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statement discussion and analysis.

26. When an entity is required or elects to make its approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget and actual amounts in the financial statements. IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose this information either in the notes to the financial statements or in other public reports. When an entity elects to include this information in its financial statement discussion and analysis, it should apply the guidance in IPSAS 24 to these disclosures.

Risks and Uncertainties

27. Financial statement discussion and analysis should discuss the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows and include an explanation of how this relates to the objectives and strategies of the entity. This information would help users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements or the use of foreign currency hedges to mitigate risk) as well as expected outcomes.

28. The principal risks and uncertainties can be external or internal risks; any description of these risks and uncertainties should cover exposures to both negative consequences and potential opportunities.

29. A discussion of how the entity manages its risks and uncertainties helps users obtain a faithful representation of the entity's exposure to risks that directly affect financial statement items, which allows them to evaluate the entity's financial position, financial performance and cash flows. Such disclosure may include the entity's decision to "self-insure" in respect of some risks, or to mitigate risk by transferring or sharing it through insurance.

30. A discussion of these risks and uncertainties would provide relevant information to users about exposure or vulnerability to concentrations of risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.

31. Risks and uncertainties that affect the financial position, financial performance and cash flows may have a pervasive effect on the financial statements. Therefore, information relating to these risks and uncertainties may be reported separately, or in relevant sections throughout financial statement discussion and analysis.

Appendix A

Terms in this RPG Defined in IPSAS

Term	Definition
Approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 2.

Background

BC1. The IPSASB approved a project in March 2008 to address "narrative reporting". In developing this RPG, the IPSASB clarified that the scope of the project was to address only those reports that provide discussion and analysis specifically relating to an entity's general purpose financial statements ("financial statements") as set out in IPSAS 1, *Presentation of Financial Statements* and not broader types of reports that may be considered general purpose financial reports as envisaged in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*). The IPSASB considers that it is important to provide narrative information related directly to the financial statements since this provides useful information for accountability and decision-making by users of financial statements.

BC2. In undertaking this project, the IPSASB considered, under its *Process for Reviewing and Modifying IASB Documents*, whether to develop guidance that was converged with *Management Commentary*, an IFRS Practice Statement. The IPSASB did not consider this approach to be appropriate because the users identified in the Practice Statement are investors whereas Chapter 2 of the *Conceptual Framework* identifies different users, which results in different information needs related to the financial statements. On this basis the IPSASB decided it was important to develop guidance on financial statement discussion and analysis specific to the public sector. Financial statement discussion and analysis assists users of public sector entities' financial statements by complementing and supplementing the financial statement explanations with insights and perspectives.

BC3. Financial statement discussion and analysis is intended to address similar matters to reports that may be termed "management discussion and analysis" and "management commentary" in various jurisdictions. However, the IPSASB did not consider those terms to accurately describe the nature of the report in relation to the financial statements. The IPSASB decided it was important to link financial statement discussion and analysis to the financial statements because financial statement discussion and analysis is intended to explain the financial statements, and not to stand alone. The IPSASB considers the term "financial statement discussion and analysis" clearly defines the scope of applicability of this RPG and its close linkage to the financial statements.

Exposure Draft 47, Financial Statement Discussion and Analysis

BC4. The IPSASB developed Exposure Draft (ED) 47, *Financial Statement Discussion and Analysis* which was issued in March 2012. This ED proposed that entities that prepare and present their financial statements in accordance with IPSAS should be required to prepare financial statement discussion and analysis. This meant that financial statement discussion and analysis would have the same level of authority as accrual-based IPSAS even though it related to a GPFR.

BC5. In developing the ED the IPSASB considered that financial statement discussion and analysis provides additional information necessary to meet the objectives of financial statements. Furthermore, the IPSASB considered that the benefits of providing financial statement discussion and analysis would outweigh the costs of preparing it, as the information is used in the preparation of the financial statements, and tailored to the specific circumstances of the entity. The IPSASB therefore proposed that financial statement discussion and analysis should be prepared by all entities that prepare their financial statements in accordance with IPSAS.

BC6. Some respondents to the ED raised the concern that entities might not be able to assert compliance with IPSAS applicable to the financial statements if they did not follow the proposed requirements in the ED (if issued as an IPSAS). In particular, respondents were concerned that financial statement discussion and analysis might still be considered to be a part of the IPSAS reporting framework even though the ED explicitly stated that financial statement discussion and analysis is not a component of the financial statements. Some of these respondents suggested that this would not be an issue if the ED was developed into non-authoritative guidance, e.g., a Recommended Practice Guideline (RPG).

BC7. The IPSASB considered whether the ED should be developed as an IPSAS or an RPG. The IPSASB considered this issue in the context of whether or not authoritative pronouncements could be developed for GPFRs, an issue on which members had varying views. The IPSASB noted that the scope of its *Conceptual Framework* is not limited to general purpose financial statements.

BC8. Respondents to the ED were split on this issue with a slight majority favoring the material not becoming an IPSAS. Of those not in favor of issuing an IPSAS, the majority of respondents expressed a clear view that it should be issued as guidance similar to the proposed RPG *Reporting on the Long-Term Sustainability of an Entity's Finances*.

BC9. As a well-established area of GPFRs, an authoritative pronouncement on financial statement discussion and analysis would help entities meet the accountability objective of financial reporting since it would enable users to gain an insight into the operations of the entity from the perspective of the entity itself. Financial statement discussion and analysis is an explanation of the financial statements but is not part of the financial statements and therefore it is not required for the fair presentation of the financial statements.

BC10. On balance the IPSASB decided that the ED should be developed into an RPG. The IPSASB considers that this RPG provides useful guidance for entities and its flexible application could benefit entities in jurisdictions that have local requirements or regulations. It will also promote comparability across entities that present financial statement discussion and analysis. Furthermore, the IPSASB considers that the RPG might encourage entities that are not accustomed to presenting financial statement discussion and analysis to provide users with this information.

BC11. Because financial statement discussion and analysis contributes to meeting the accountability objective of financial reporting, the IPSASB decided that it should consider the authority of this pronouncement on financial statement discussion and analysis in the future.

Forward-Looking Information

BC12. The IPSASB considered whether it should recommend that an entity disclose forward-looking information, such as forecasts. The IPSASB acknowledged concerns that in some jurisdictions providing forward-looking information might be seen as signaling political intent or committing a public sector entity to certain future actions. In addition, whether forward-looking information can be included in financial statement discussion and analysis will vary depending upon the regulatory and budgetary reporting environment in which the entity operates. Some members expressed the opinion that not including forward-looking information could have an impact on the ability of financial discussion and analysis to support decision-making of users and therefore its inclusion should be recommended. However, on balance the IPSASB decided not to recommend that an entity disclose forward-looking information, though such information may be provided if an entity so chooses.

Implementation Guidance and Illustrative Examples

BC13. ED 47 included Implementation Guidance on qualitative characteristics, and illustrative examples of information about the entity's financial statements and variances and trends. The IPSASB decided to delete the implementation guidance and illustrative examples on the basis that entities preparing financial statement discussion and analysis should focus on the guidance in the RPG. Moreover, the IPSASB observed that best-practice examples are available from other sources.

Revision of RPG 2 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC14. 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.

RPG 3—REPORTING SERVICE PERFORMANCE INFORMATION

History of RPG

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

RPG 3, *Reporting Service Performance Information* was issued in March 2015.

Since then, RPG 3 has been amended by the following IPSAS and RPG:

- *Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* (issued May 2023)
- *The Applicability of IPSAS* (issued April 2016)

Table of Amended Paragraphs in RPG 3

Paragraph Affected	How Affected	Affected By
3	Deleted	*The Applicability of IPSAS* April 2016
IG1	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG2	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG3	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG4	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE4	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE5	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE6	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE7	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE8	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023

REPORTING SERVICE PERFORMANCE INFORMATION

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance on reporting service performance information in General Purpose Financial Reports (GPFRs). Service performance information is information on the services that the entity provides, an entity's service performance objectives and the extent of its achievement of those objectives. Service performance information assists users of GPFRs (hereafter termed "users") to assess the entity's service efficiency and effectiveness.

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity reporting service performance information should aim to achieve the principles set out in this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSAS).

3. Although this RPG does not apply directly to commercial public sector entities, the services provided by a commercial public sector entity controlled by the reporting entity are within the scope of this RPG.

4. Service performance information should not be described as complying with this RPG unless it complies with all the principles in this RPG.

5. This RPG outlines information to be presented. An entity may present additional information if such information is useful in meeting the objectives of financial reporting and meets the qualitative characteristics of financial reporting.

6. In some jurisdictions the presentation of service performance information is a legislative or regulatory requirement. Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.

7. A jurisdiction may have established service performance reporting requirements that extend beyond the guidelines in this RPG. These could include, for example, greater specification of required information organization, requirements for a larger set of information to display or disclose, and/or specific performance indicators or specific types of performance that are required to be presented. In that case the entity is encouraged to ensure that information identified through application of both this guideline and jurisdictional requirements is presented.

Definitions

8. The following terms are used in this RPG with the meanings specified:

   Effectiveness is the relationship between actual results and service performance objectives.

   Efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes.

   Inputs are the resources used by an entity to provide outputs.

   Outputs are the services provided by an entity to recipients external to the entity.

   Outcomes are the impacts on society, which occur as a result of, or are reasonably attributable to, the entity's outputs.

   Performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives.

   A service performance objective is a description of the planned result(s) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes or efficiency.

9. The Implementation Examples that accompany RPG 3 illustrate the terms defined above.

Effectiveness

10. When reporting on its effectiveness the entity reports the extent to which one or more of its service performance objectives has been achieved. The more effectively an entity operates as a service provider, the better will be its actual results when measured against its planned results.

Efficiency

11. An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to a reference such as:

    (a) Previous reporting periods;

    (b) Expectations;

    (c) Comparable service providers; or,

    (d) Benchmarks.

12. If the same quantity and quality of outputs can be produced at less cost than before then production efficiency has improved and an efficiency indicator designed to report that type of efficiency gain will show an improvement. Similarly, if the quality of a service improves so that the outcomes achieved are better than those previously attained, with other variables such as service quantity (outputs) and cost holding constant, then this represents an increase in efficiency, and an efficiency indicator designed to capture that type of efficiency gain will show an improvement. The converse—quality decreases so that outcomes are worse, with other variables such as service quantity (outputs) and cost holding constant—would indicate less efficient service provision.

Inputs

13. Resources used to produce outputs may include:

    (a) Human resources or labor;

    (b) Capital assets such as land, buildings and vehicles;

    (c) Cash and other financial assets; and,

    (d) Intangible assets such as intellectual property.

14. Inputs can be reported in terms of costs incurred or quantities used to produce outputs.

Outputs

15. Services provided by an entity to external recipients include:

    (a) Services provided directly to individuals and institutions—for example, health or education services or the provision of goods such as food or books;

    (b) Services provided indirectly to individuals and institutions—for example, services which aim to develop, promote, protect or defend a community, institution, country, or community values and rights;

    (c) Transfers to individuals and institutions—for example, cash transfers and the provision of economic incentives such as tax incentives;

    (d) Policies, regulations or legislation to achieve public policy goals, which includes, for example, revenue related legislation and the enforcement of such legislation; and

    (e) Collection of taxes and other revenues.

16. The receipt of services by recipients external to the entity is a critical factor in deciding whether services are outputs, rather than services consumed internally as part of an entity's production of outputs.

Outcomes

17. An entity's outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity's services. They could also be impacts on others that are not recipients of the entity's services but who benefit indirectly from those services.

18. Outcomes may include, for example, changes to educational achievements within society, changes to poverty and crime levels, or changes to the health of different groups within society.

19. There may be a strong, direct causal link between an entity's actions and its outcomes, but this will not always be the case. Factors beyond the entity's control may intervene to either hinder or facilitate the entity's achievement of outcomes.

Performance Indicators

20. Inputs, outputs, outcomes, efficiency and effectiveness are types of performance indicators.

21. Performance indicators may be quantitative measures—for example, the number of outputs produced, the cost of services, the time taken to provide a service, or a numerical target for an outcome. Performance indicators may be qualitative measures—for example descriptors such as poor/good/excellent or satisfactory/unsatisfactory, which could include service quality ratings by service recipients, citizens or experts. Use of quantitative and qualitative measures may help users with:

    (a) Their assessment of whether service performance objectives have been achieved; and,

    (b) Inter-period and inter-entity comparisons of service performance.

22. A performance indicator could also be in the form of a qualitative description. A qualitative description may be necessary to provide users with relevant and understandable information on service performance where there is a high level of complexity and judgment involved in a particular service.

Service Performance Objective

23. Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency, or through a combination of one or more of these four performance indicators. A service performance objective may also be expressed using a narrative description of a desired future state resulting from provision of services.

24. Service performance objectives will generally be specific, measurable, achievable, realistic and time-bound.

25. An entity's service performance objectives may all be expressed in the same type of performance indicator; for example, all expressed in outcomes. They may also be expressed in different types of performance indicators; for example, some of the service performance objectives may be expressed in outcomes, while others are expressed in outputs and/or inputs.

26. A single service may contribute to achievement of one or more service performance objectives. Several services may contribute to the same service performance objective.

Reporting Boundary

27. For reporting service performance information the reporting boundary of the entity should be the same as that used for the financial statements.

28. The performance indicators presented will be relevant to the controlling entity's own service performance objectives. Unlike consolidated financial statements, which combine the finances of controlled entities, service

performance information reported by a controlling entity is not usually a combination of the services reported by its controlled entities.

Annual Reporting and Reporting Period

29. Service performance information should be reported at least annually.

30. Service performance information should cover the same reporting period as that covered by the financial statements. However, a consideration of users' needs and an assessment of costs and benefits may indicate that the reporting period should be different from that covered by the entity's financial statements. This may be the case, for example, when service performance information presented by a controlling entity is based on service performance information reported by controlled entities that have a different reporting period.

31. Service performance objectives may require periods longer than one year to achieve. Users will need information on progress towards such multi-year service performance objectives. Paragraph 53 addresses the type of service performance information that can be presented to show annual progress towards multi-year service performance objectives.

Principles for Presentation of Service Performance Information

32. An entity should present service performance information that is useful to users for accountability and decision making purposes. Presentation should enable users to assess the extent, efficiency and effectiveness of the entity's service performance. It should be appropriate to the entity's service performance objectives and make the relationship between the entity's service performance objectives and its service performance achievements clear.

33. When used in combination with the information in an entity's financial statements, service performance information should enable users to assess the entity's finances in the context of its achievement of service performance objectives and vice versa.

34. The service performance information presented should take account of the entity's specific circumstances, such as:

    (a) The services that the entity provides;

    (b) The nature of the entity; and,

    (c) The regulatory environment in which the entity operates.

35. The presentation of service performance information should achieve the qualitative characteristics of financial reporting, while applying the pervasive constraints on information in GPFRs. (The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) describes the qualitative characteristics and pervasive constraints.)

36. Aggregation or disaggregation of service performance information should be at a level that conveys a meaningful understanding of the entity's service performance achievements. The level of aggregation should not be so high as to conceal or obscure performance, while the level of disaggregation should not be so low as to result in detailed listings that also obscure performance and reduce understandability. Information reported should be sufficiently specific for users to hold the entity accountable for its service performance, particularly its performance with respect to its service performance objectives.

37. Comparability to other entities can be difficult to achieve in the context of service performance information since diverse services are provided. Even where two entities provide exactly the same service they may have different service performance objectives with the result that they need to report different, non-comparable performance indicators. Inter-entity comparability may need to be traded off against relevance, so that service performance objectives and their related performance indicators are chosen to be relevant to the service performance situation

of the entity. Alternatively the needs of users may indicate that performance indicators that are comparable with those of other entities delivering the same services are relevant to the entity, and the two qualitative characteristics—comparability and relevance—are aligned.

Selection of Service Performance Information

Information for Display

38. The following information should be displayed:

(a) Service performance objectives;

(b) Performance indicators; and,

(c) Total costs of the services.

39. With respect to performance indicators and the total costs of the services, the entity should display:

(a) Planned and actual information for the reporting period; and

(b) Actual information for the previous reporting period.

40. Where service performance information includes information that is also in the financial statements, cross-references to the financial statements should be presented so that users can assess the information within the context of the financial information reported in the financial statements.

41. Information found in an entity's legislation and planning documents (budget statement, mission statement, strategic plan, funding agreements, corporate plan, etc.) will usually help to identify the service performance objectives and performance indicators that are relevant to the entity.

Service Performance Objectives

42. Where the entity's service performance objectives change, the information presented should reflect the change. For example, an entity may initially have service performance objectives related to increasing either the inputs or outputs related to its services, and then later re-focus its performance towards improving either the services' efficiency or effectiveness. That change should be reflected in the service performance information that the entity presents.

Performance Indicators

43. Judgment is needed to determine the most suitable set of performance indicators to be reported. The overriding principle is that indicators should be selected on the basis of their importance to users and their usefulness in assessing the entity's achievements in terms of its service performance objectives. For performance indicators to be relevant they should link directly to one or more of the entity's service performance objectives. Alignment between the different indicators presented—for example between input, output and/or outcome performance indicators—and the service performance objectives helps users to assess the relationship between resources and results, and how resource availability may have influenced achievement of service performance objectives.

44. The performance indicators presented should allow users to assess how efficiently and effectively the entity has used its resources to deliver services and achieve its service performance objectives.

45. Where an entity has publicly reported planned performance indicators the actual performance indicators presented will usually be consistent with those previously made public. Those entities that publish their budget information and apply IPSAS 24, *Presentation of Budget Information in Financial Statements*, should consider the relationship between that information and the service performance information that they report.

46. An entity is encouraged to display information about its intended outcomes and its achievements with respect to those outcomes.

47. There may be a large number of performance indicators that can be presented for an entity's service performance objectives. To ensure that the information is understandable and to avoid overwhelming users, entities generally will need to identify only those few key performance indicators that will best meet the needs of users for information that meets the objectives of financial reporting.

48. Performance indicators that involve quantification should be able to be measured reliably. Where performance indicators can be generated by a transaction processing system the use of such a system will support the verifiability and timeliness of reported information.

49. When selecting performance indicators entities should ensure that the indicators presented will provide a representationally faithful description of the achievement of service performance objectives. There may be trade-offs between different aspects of service performance, such that one aspect improves while another aspect deteriorates. Information presented should be neutral. Entities should avoid any tendency to present performance indicators that are biased towards reporting positive results. This helps to ensure that the qualitative characteristics are met and users can be confident that the performance indicators faithfully represent the entity's service performance.

50. Ease of measurement is likely to be a consideration when selecting performance indicators, but it should be secondary to the needs of users. The performance indicators presented should not over-emphasize easily measured dimensions.

51. In some situations a qualitative description (also called narrative information) should be presented as a performance indicator. This could be the case where service performance achievements cannot be reduced to a small set of quantitative or qualitative measures because the service:

(a) Is complex;

(b) Involves interrelated factors; and

(c) Involves a large number of different possible indicators of success or progress, all of which involve judgment as to their relative importance.

52. Information reported on any particular service may include one or more different types of performance indicators; quantitative measures, qualitative measures and/or qualitative descriptions.

Multi-year Service Performance Objectives and Performance Indicators

53. The extended timeframe of multi-year service performance objectives should not be a deterrent to reporting multi-year objectives and disclosing progress towards their achievement, although ways to report on progress in a cost-effective way may need to be developed. Alternative or proxy measures that indicate progress towards achievement of the service performance objective may be able to be presented in the short-term, until information on achievement of the multi-year service performance objective is available. For example, where an entity establishes both annual outputs and longer term, multi-year outcomes for one or more service area there may be scope to treat annual reporting against outputs as indicative of progress towards achievement of the outcomes, with actual outcomes reported less frequently.

Total Costs of Services and Disaggregated Cost Information

54. In addition to display of the total costs of services, an entity may also choose to present disaggregated cost information. Disaggregated cost information could, for example, be costs related to individual service performance objectives, outcomes, service areas, individual services, the costs of outputs, or costs related to particular inputs. Users' assessment of efficiency may be supported through provision of costs related to either outputs or outcomes.

Planned and Actual Service Performance

55. Planned and actual service performance information should be reported consistently so that users' assessments of effectiveness are facilitated. Wherever possible, entities should report on the same performance indicators, with the same methodology and parameters for their computation, as that established before the start of the reporting period. This enables users to compare actual performance with planned performance at the end of the reporting period.

56. Consistency of performance indicators over several years facilitates long-term trend analysis. But such consistency should not be pursued at the expense of:

(a) Improving the quality of performance indicators; or,

(b) Aligning indicators with changed expectations from stakeholders.

57. An entity may need to address the issue of how to report on changes to planned service performance that occurred during the reporting period. This situation may arise, for example, when stakeholders revise their service performance expectations during the reporting period, resulting in an amendment to service performance objectives. Service performance objectives may also change as a result of a public sector combination, where accountability for services is transferred from one entity to another or reporting needs to be on services previously provided by two different entities and now provided by a single, merged entity. In these situations it may be possible for the entity to report against both the original and the revised service performance objectives. The reason for, and the impact of, these changes could be outlined in narrative discussion and analysis, so that users have the information they need to understand reasons for variances between service performance objectives at the beginning of the reporting period and actual achievements, while also understanding the degree of actual achievement against the more up-to-date, revised service performance objectives.

Information for Disclosure

58. Judgment is needed to decide what information should be disclosed so that users:

(a) Understand the basis of the displayed service performance information; and,

(b) Receive a concise overview of the entity's service performance, which highlights the main issues relevant to their assessment of that service performance.

Basis of Displayed Service Performance Information

59. An entity should disclose sufficient information on the basis of displayed service performance information to enable users to evaluate whether the information on service performance objectives, performance indicators and total costs achieves the qualitative characteristics of financial reporting.

60. An entity should disclose information on the sources of displayed service performance information.

61. The following information should be disclosed:

(a) An explanation of the displayed service performance objectives, which describes how they have been established, the need for them to be achieved, and the relationship(s) between the service performance objectives and:

(i) The displayed performance indicators, and

(ii) The entity's overall objectives.

(b) An explanation of the relationship(s) between related performance indicators. (For example, information on the extent of alignment between input, output and/or outcome indicators, where the inputs and outputs contribute to achievement of a particular outcome.)

(c) An explanation of the basis for information aggregation (or disaggregation), which addresses the level of detail reported.

Disaggregated Information on Costs

62. If an entity chooses to present disaggregated information on costs then the basis for cost determination should be disclosed.

63. Cost determination information includes information such as:

(a) Cost allocation policies;

(b) The treatment of direct and indirect service related expenses; and/or

(c) A reconciliation or a comparison between the costs of services presented and total expenses.

Controlling Entity Disclosures

64. Where a controlling entity reports on services provided by its controlled entities the controlling entity should disclose information that explains the respective roles and responsibilities for service performance within the economic entity.

Disclosures when Reporting Period is Different

65. When the service performance information covers a reporting period different from that for the entity's financial statements, the following information should be disclosed:

(a) The fact that the reporting period is not the same as that for the financial statements;

(b) Why there is a difference; and,

(c) If financial information is included in the service performance report, either

(i) The reporting period of the financial statements from which the information has been derived, along with information to facilitate access to those financial statements; or

(ii) The source of the financial information reported, if the information has not been derived from the entity's financial statements, along with information to facilitate access to that source.

66. When the reporting period for information on some services is different from the reporting period of the entity's service performance report the following information should be considered for disclosure:

(a) The services affected,

(b) The applicable reporting period(s), and

(c) An explanation for the difference(s).

Disclosures when Separate from the Financial Statements

67. Paragraphs 72–75 below address the location of service performance information in a GPFR. Where service performance information is presented separately from the GPFR that includes the financial statements, the following information should be presented:

(a) The name of the entity;

(b) Where the entity is a controlling entity, a description of the group of entities controlled by the reporting entity;

(c) Where the entity is a controlled entity, the identity of the controlling entity;

(d) The reporting date and the reporting period covered by the service performance information;

(e) The financial statements to which the service performance information relates and sufficient information necessary for users to locate the financial statements;

(f) The presentation currency, as defined in IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*; and,

(g) The level of rounding used.

68. Where service performance information is presented in the GPFR that includes the financial statements, the applicable IPSAS(s) establishes that this information should be presented.

Narrative Discussion and Analysis

69. The entity should disclose narrative discussion and analysis on its service performance information. Narrative discussion and analysis complements the displayed service performance information by enabling users to gain insight from the entity on:

(a) Aspects of service performance that the entity considers should be highlighted; and

(b) Factors that affected service performance achievements during the reporting period.

70. Narrative discussion and analysis should provide a concise overview of the entity's service performance that:

(a) Discusses the degree to which service performance objectives have been met;

(b) Provides balanced explanations of the information displayed, which cover both positive and negative aspects of the entity's service performance; and

(c) Facilitates users' assessments of the efficiency and effectiveness of the entity's service performance.

71. The Implementation Examples that accompany RPG 3 illustrate types of information that could be included in narrative discussion and analysis.

Location of Service Performance Information

72. An entity may present service performance information either:

(a) As part of a GPFR that includes the financial statements; or,

(b) In a separately issued GPFR.

73. The following factors should be considered when making this decision:

(a) The extent to which the service performance information needs to be reviewed within the context of information in the financial statements, including information on budget-actual comparisons;

(b) Whether the needs of users and the qualitative characteristics are enhanced if the service performance information is included in the same GPFR as the financial statements or in a separate GPFR;

(c) Application of the pervasive constraints on information, including whether the benefits of including the information in the same GPFR as the financial statements justify the additional costs (if any) involved; and,

(d) Jurisdiction-specific requirements which could specify either that service performance information should be located in the same GPFR as the financial statements or in a separate GPFR.

74. With respect to point (a) in paragraph 73 above, an important factor in this decision is likely to be whether the primary objective of providing the service performance information is:

(a) To inform assessments on resource allocation decisions for the provision of services, in which case there is likely to be value in associating the reporting of service performance information with the financial statements that are compared to budget allocations; or

(b) To inform assessments on policy or strategy decisions, in which case there is likely to be value in associating the reporting of service performance information with information on policies or strategy.

75. Where an entity chooses to present its service performance information in a separate GPFR from the financial statements the separate GPFR should be issued on a timely basis, which will usually be demonstrated through issuance at the same time as the financial statements or, if not at the same time, then very close to issuance of the financial statements.

Organization of Service Performance Information

76. The organization of service performance information within a GPFR should enable users to:

(a) Understand an entity's service performance, including its achievement of service performance objectives;

(b) Assess the entity's service efficiency and effectiveness; and

(c) Use the service performance information for the purposes of accountability and decision making.

77. The service performance information should be organized so that connections are clear between displayed information and:

(a) Disclosures on the basis of the displayed information, and

(b) Narrative discussion and analysis.

78. One way to organize service performance information is in a "statement of service performance", which involves organizing information into a tabular or statement form. A statement of service performance can support understandability and comparability when the performance indicators presented are quantitative measures or qualitative measures reported on multiple services.

79. Where service performance information is presented through narrative or case studies a tabular approach is unlikely to be appropriate. In some cases a mixture of case studies and one or more tables or statements will be appropriate.

80. Entities may use several levels of reporting in order to achieve a balance between being:

(a) Concise enough to be understandable; and,

(b) Providing sufficient detail with respect to multiple aspects related to each service performance objective.

81. The use of several levels of reporting allows the display of concise reporting at higher levels, and display or disclosure of more detailed coverage at lower levels, where service areas, for example, could be disaggregated into two or more individual services.

82. IPSAS 18, *Segment Reporting,* applies to entities' identification of segments. It describes service segments and identifies factors that should be considered when grouping services into segments for financial reporting purposes.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 3.

Background

Project Initiation, Consultation Paper and Decision to Develop Guidance

BC1. The IPSASB's project on reporting service performance information began with a review of national standards, guidance, and regulatory requirements for service performance reporting (or its equivalent) from selected national jurisdictions, the United Nations, and the Organization for Economic Co-operation and Development. No two jurisdictions have identical service performance reporting frameworks, but there are similarities in the service performance information that is reported. Consideration of these similarities and of commonly used terms provided the basis for the Consultation Paper (CP), Reporting Service Performance Information, issued in 2011. The CP proposed a principles based framework for reporting service performance information and a standard terminology.

Development of a Recommended Practice Guideline

BC2. In 2013 the IPSASB decided that information additional to that included in the financial statements should presently be addressed through development of a Recommended Practice Guideline (RPG). Therefore a draft RPG, ED 54, Reporting Service Performance Information, was developed for reporting service performance information. This RPG is based on the service performance reporting framework developed for the CP, revised for the IPSASB's decisions during its review of responses to the CP and its subsequent review of responses to ED 54. This RPG is underpinned by the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

Overall Approach of RPG—Guidance on Decisions and Minimum Characteristics

BC3. During development of this RPG, the IPSASB considered whether its overall approach should aim to:

(a) Establish minimum characteristics of service performance information, consistent with an RPG's role as providing guidelines on good practice and requirements; or

(b) Provide a framework that identifies decisions that preparers need to make and guidance on those decisions, consistent with the framework approach in the CP and an RPG's function as guidance.

BC4. Given the diversity of services and reporting contexts, the IPSASB decided that the RPG should not attempt to standardize service performance reporting, but focus on achievement of principles. At the same time, the core type of service performance information that should be presented. This approach was decided on the basis that guidelines are needed on what type of information should be presented and it is possible to identify broad categories of information—for example, information on service performance objectives—that are applicable to all entities that report service performance information.

BC5. In developing an RPG for reporting service performance information the IPSASB acknowledged the challenge in developing guidance that would be useful when applied to diverse services, diverse service performance objectives, and diverse accountability and decision-making contexts world-wide. Arguably service performance reporting quality depends in part on the extent to which it meets the particular information needs arising from the services provided and the context for their provision. For example, a report that tells the story of factors influencing progress toward critical targets may look quite different to a report that provides an account of services delivered for the resources provided. The IPSASB considered these matters and was of the view that it would be most helpful to develop an RPG that identifies the decisions that preparers will need to make, then provides guidance on how such decisions should be made, rather than an RPG that establishes minimum standards.

BC6. The IPSASB's view is that principles applicable to reporting service performance information provide useful guidance, without attempting to establish global requirements that may not be appropriate for the variety of different services and different service delivery contexts that exist globally. Service performance information is a developing area, which means that the RPG should not be overly prescriptive.

BC7. Some respondents to the ED were concerned about an apparent contradiction between RPG as pronouncements that do not establish requirements and paragraph 5 of the ED, which stated that compliance with the RPG involves compliance with all of its requirements. The IPSASB decided that the phrase "compliance with requirements" in this paragraph should be replaced with "compliance with principles". The basis for this is twofold. First, the RPG establishes principles which entities then use to guide their decisions on what service performance information they report. Second, while the paragraph still uses the idea of "compliance", the IPSASB considers that this is consistent with the RPG's role as a recommended guideline. The nature of an RPG as a guideline is established by the allowance for entities to not follow a particular RPG—in its entirety—without impacting negatively on the entity's IPSAS compliance. Preparers (or jurisdictions) may also choose to apply part of the RPG and, for example, progressively move towards full compliance, at which point compliance can be asserted. Nonetheless the specific content of an RPG involves a set of principles that establish good practice. An RPG may also, depending on the topic addressed, involve more flexibility of application than is the case for an IPSAS. This is the case for this RPG which includes options as to presentation and uses principles to guide preparers' decisions on what information to present.

Scope

BC8. When this RPG was issued, the IPSASB considered whether the RPG should apply to [Government Business Enterprises (GBEs)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016). While acknowledging that GBEs provide services and may report service performance information on those services the IPSASB decided that this RPG should apply to all public sector entities other than GBEs. When this RPG was issued, this was consistent with the Preface to International Public Sector Accounting Standards, which stated that the IPSASB developed accounting standards and other publications for use by public sector entities, other than GBEs. This exclusion from the scope should not be read as implying that the guidance could not be applied by GBEs or that there is any barrier to GBEs applying this guidance.

BC9. In reaching this conclusion the IPSASB noted that where a controlling entity reports service performance information according to the recommendations in this RPG it may provide information on services provided by one or more controlled GBEs. Although the GBEs' own reporting was not within the scope of this RPG, the IPSASB decided that the information reported by the controlling entity—about the GBEs' services—needed to follow the RPG's requirements, if the controlling entity was to assert compliance with the RPG.

BC10. The IPSASB considered whether this RPG should apply to entities in national jurisdictions which already have extensive service performance information reporting requirements for their public sector entities—requirements that may extend beyond the principles approach to information which is set out in the RPG. The IPSASB's view is that, in such circumstances, the entity will need to ensure that jurisdictional requirements are met. While the RPG does not set out detailed comprehensive and specific requirements, this does not represent an encouragement to report less than is already reported under national or other requirements, nor is this viewed as in conflict with more extensive reporting. Paragraphs 6–7 of the RPG addresses the relationship between the RPG and jurisdictional requirements for service performance information, explaining that the RPG does not preclude the presentation of additional information and more extensive jurisdictional requirements would apply in addition to the guidelines in the RPG. The IPSASB concluded that the RPG adequately addresses this issue and the RPG should be able to be applied to entities in jurisdictions where extensive service performance information reporting requirements already exist.

Definitions of Terms

BC11. In reaching its view on the need for standardized service performance terminology the IPSASB noted that although entities use some terminology consistently, many of those entities have not defined some or all of the terms they use. Moreover, the same terms sometimes have different meanings in different jurisdictions. On this basis, the IPSASB concluded that a standardized service performance terminology was necessary to support the understandability and comparability of service performance information reported by entities in GPFRs.

BC12. The IPSASB developed the defined terms in the RPG, by basing them, as far as possible, on terms already used in jurisdictions with a well thought through and explicit approach to, and extensive experience in, service performance reporting.

BC13. During the review of responses on the CP and the ED, and then during subsequent development of the RPG the IPSASB revised the definition of an effectiveness indicator. The CP definition was: "Effectiveness indicators are measures of the relationship between outputs and outcomes." This implies that the relationship between outputs and outcomes is relatively simple to measure. After further consideration the IPSASB considered that the relationship between outputs and outcomes is likely, in many situations, to be more complex than the simple relationship underpinning the original definition. Furthermore, the IPSASB considered that effectiveness is better understood to be the degree to which an entity is successful in achieving its service performance objectives. On this basis the IPSASB decided that effectiveness indicators show the extent to which an entity has achieved its services performance objectives

BC14. During development of the CP and ED 54, and the subsequent review of responses to ED 54, the IPSASB considered whether to include "economy indicators" in the RPG's set of defined terms. IPSASB members decided to exclude economy indicators because the term is both confusing and unnecessary given other terms defined in the RPG. "Economy indicators" do not represent something additional to the ideas conveyed by either inputs or efficiency, for which the RPG establishes clear definitions. The IPSASB noted that the RPG's approach to selection of service performance information allows jurisdictions to assess "economy", whatever the meaning that a particular national jurisdiction gives that word. For example, the RPG supports the presentation of information on costs, on other inputs, and on efficiency.

BC15. Economy is a commonly used term in the context of service performance reporting. However different jurisdictions have different meanings for economy. For some jurisdictions economy means lower costs for service delivery without reference to impact on quantity and/or quality of services delivered. Other jurisdictions consider that this first view is not really economy and that using "economy" to describe situations where costs are reduced but service quantity and/or quality is negatively impacted could be misleading to users of GPFRs. A second view of economy is that it is only achieved if service delivery is maintained or enhanced, when costs or other inputs are reduced. This second view of economy fits the definition of "efficiency" in the RPG. Indeed, there is a third group of national jurisdictions that does not use the term "economy" on the basis that the term can be confusing and it overlaps with efficiency. Therefore the RPG does not define "economy indicators" and does not use the term "economy".

Reporting Entity

BC16. Service performance information should support the users of the GPFRs as they hold the entity accountable for its service provision and use of resources and make decisions affecting that entity. On that basis a majority of the IPSASB considered that service performance information should be prepared for the same reporting entity as for the financial statements. To be consistent with coverage in RPG 1 and 2 (see paragraph 14 of RPG 1 and paragraph 4 of RPG 2) the wording in RPG 3 focuses on "reporting boundary" rather than reporting entity, In reaching this conclusion the IPSASB also noted that the RPG's accountability and decision making focus is not designed to apply to supply chains, networks or other combinations of individual entities that may be able to influence each other but do not have the ability to control.

BC17. Several respondents to the ED suggested that the RPG should also provide guidance for reporting on programs or policies that involve a group of entities that are not under common control, that is, "cross-boundary" reporting. The IPSASB acknowledged that there is a trade-off between service performance reporting that applies the same reporting entity boundary as for the financial statements and flexible boundaries that provide scope for cross-boundary reporting. A focus on the same reporting entity as for the financial statements has the benefit of following lines of control and supporting organization-focused accountability, while also facilitating both collection of service performance information and the integration of such information with financial information in the entity's financial statements. However there are cases where no single entity is accountable for a program or policy and requiring cross-boundary reporting, aligned with the program or policy, would provide information that better explains service performance related to that program or policy. The IPSASB considered expanding the RPG's scope to also include guidance for cross-boundary reporting on "programs" or "sets of activities that contribute to the same outcome(s)". The IPSASB decided that the RPG should remain focused on reporting by the same entity as that for the financial statements. This does not prevent national jurisdictions from adapting the RPG's principles and guidance for application to cross-boundary reporting.

BC18. The IPSASB considered concerns expressed by respondents to the CP and the ED over controlling entities being required to report all services provided by their controlled entities. That could have the result that information becomes too detailed and lengthy to meet the qualitative characteristics and support users' assessments for accountability and decision making. The IPSASB decided to include further explanation in the RPG to address this concern. On this basis the RPG states that controlling entities should report against their own service performance objectives rather than attempt to aggregate all those services provided by controlled entities.

Annual Reporting and Reporting Period

BC19. The IPSASB considered whether service performance information should be reported annually, when service performance objectives, whether expressed in outcomes, outputs or inputs, may require periods longer than one year to achieve. The majority of IPSASB members considered that service performance information should be reported annually because this is important to ensure that users' have the information they need for the purposes of accountability and decision-making. To address the existence of multi-year service performance objectives the IPSASB decided that the RPG could encourage entities to disclose information on their progress towards multi-year service performance objectives. The IPSASB noted that responses to the ED indicated generally strong support for annual reporting. The IPSASB confirmed that service performance information should be presented annually and use the same reporting period as that for the financial statements, unless users' needs require a different period.

Scope to Report More Frequently

BC20. Some respondents to the ED were concerned that it did not allow entities to report more frequently than annually. The IPSASB agreed with respondents who argued in favor of scope for more frequent reporting, noting that this is likely to increase transparency and accountability. As one respondent stated, more frequent reporting also can encourage "management dialogue between all those involved in the evaluated public policy mission and improves the management process by increasing the accountability of the public manager." The IPSASB decided to use the phrase "should be reported at least annually", which allows for more frequent reporting and is the same phrase as that used in IPSAS 1, Presentation of Financial Statements, to address reporting frequency.

Reporting Against Multi-Year Performance Objectives

BC21. The IPSASB considered concerns raised by some respondent to the ED that annual reporting could have negative consequences for outcome reporting, including the possibility that annual reporting could have the unintended effect of reducing the extent to which entities report outcomes. The IPSASB noted that for some outcomes annual measurement is very expensive and measurable change showing progress towards outcome achievement will not emerge for two or more years. One respondent noted that annual reporting in such cases may even be misleading. This problem is not restricted to service performance objectives focused on outcomes, but can also occur for outputs and input reporting. To address this concern the RPG includes explicit coverage on use of proxy measures and provides scope for entities to report outputs or inputs as indicative of progress towards achievement of outcomes or other types of multi-year service performance objectives.

Service Performance Information Issued at Same Time as the Financial Statements

BC22. The IPSASB considered whether the RPG should state that service performance information should be issued at the same time as the financial statements. The IPSASB noted that issuance at the same time as the financial statement supports timeliness, but may be very difficult for some entities to achieve. The IPSASB decided that, while acknowledging that it is desirable for service performance to be reported at the same time as the financial statements, the RPG should not state that this is necessary.

Controlling Entity and Controlled Entities with a Different Reporting Period

BC23. The IPSASB considered situations in which a controlling entity includes information on services that are provided by controlled entities with a different reporting period from that of the controlling entity. Ideally all the service performance information reported should cover the same reporting period. However there are situations where the benefits of aligning the information with the controlling entity's reporting period do not outweigh the costs involved. For example, some public sector entities provide service performance reports to donors who require a different reporting period from that for the entities' financial statements. The additional costs of preparing service performance reports for each reporting period (donors and financial statements) may not justify the benefits. On this basis the IPSASB decided that the RPG should acknowledge the possibility that some of the service performance information reported may be for a different reporting period and address this through additional disclosures.

Two Approaches for Reporting Service Performance Information

BC24. In developing this RPG the IPSASB acknowledged that there are differing approaches to reporting service performance information, including approaches that are more output-focused and approaches that are more outcome-focused. A more outputs-focused approach reports information about the services provided. This type of information is oriented towards resource providers and aims primarily to report on the services received for resources provided and whether resources have been used efficiently, although there is scope to widen the focus to include information about outcomes. A more outcome-focused approach tells a performance story, which generally reports on the achievement of outcomes, although there is scope to relate this performance story back to the costs of services. The information reported explains how well the entity is doing in terms of achieving its objectives, where those objectives are described in terms of outcomes.

BC25. The IPSASB considered whether the RPG should include guidance specifically tailored for each approach, but decided against this on the basis that the RPG's focus on achievement of objectives can be applied to either approach. Allowing entities to tailor their reporting to their objectives means that entities or jurisdictions do not need to fit their individual approach into either an output-focused approach or an outcome-focused approach in order to apply the RPG. This means that the RPG's content will be useful to a variety of entities applying different approaches. Entities' service performance objectives may even relate to inputs, when their reporting of service performance information is at an early stage. However, the ideal to which entities should, over time, aspire is the reporting of service performance information that reports comprehensively on both outcomes and outputs, along with information that allows users to assess the efficiency and effectiveness of both. This is consistent with the IPSASB's view, discussed below, that the performance indicators presented should form a holistic system such that they communicate a coherent, integrated view of the entity's service performance.

Principles for Presentation of Service Performance Information

BC26. The RPG sets out principles applicable to the presentation of service performance information, which includes principles applicable to decisions on information selection, location and organization. The RPG identifies factors that should be considered when making presentation decisions and generally proposes information that should be considered for presentation, in light of those principles, rather than prescribing an extensive list of information requirements. This principles-based approach is consistent with the IPSASB's decisions on the RPG's overall approach, developed during the consultation phase and further considered during both development of the ED and the IPSASB's review of responses to the ED. Although the RPG identifies the type of information that all entities should present, it does not prescribe an extensive set of information. The IPSASB has maintained the principles based approach proposed in the CP and then exposed in the ED on the basis that the principles-based approach:

(a) Allows entities the flexibility they need to report service performance information that is relevant an appropriate to their service performance objectives and will meet the needs of users of the information;

(b) Reduces the risk of "disclosure overload", which undermines the extent to which a report on service performance meets the needs of users and does not achieve either the qualitative characteristics or provide benefits in excess of the costs; and

(c) Requires entities to apply principles that will result in the presentation of the service performance information that users need for the purpose of accountability and decision-making.

BC27. The IPSASB determined that the key principles for reporting service performance information should be based on the users' needs that such information should meet, as established through consultation and with reference to the experience of different jurisdictions. The principles are consistent with the Conceptual Framework and have involved application of the Conceptual Framework to the reporting of service performance information.

Presentation of Service Performance Information

Consultation Paper's Dimensions and Components of Service Performance Information

BC28. The CP explained that there are four dimensions of service performance on which information should be presented. The four dimensions—why, what, how and when—relate to an entity's:

(a) Service performance objectives;

(b) Performance indicators;

(c) Comparison between planned and actual performance; and

(d) Time series that allow users to assess either changes in service provision over time or progress towards a multi-year goal.

BC29. The RPG's coverage of information selection addresses these four dimensions when it establishes that an entity should report:

(a) Information on an entity's service performance objectives, including the need or demand for these objectives to be achieved (the "why" dimension);

(b) Performance indicators to show achievements with respect to service performance objectives (the "what" dimension);

(c) Comparisons of actual performance to planned (or targeted) results, including information on the factors that influence results (the "how" dimension); and

(d) Annually on service performance information presenting actual information for the current and the previous reporting period (the "when" dimension).

BC30. The CP also established components of service performance information, which relate to these four dimensions. The RPG's coverage of information selection addresses the CP's components, which are:

(a) Narrative discussion of the achievement of objectives;

(b) Information on the "parameters" of the service performance information reported (termed "basis" in the RPG); and

(c) Information on the entity's service performance objectives, and its achievement of those service performance objectives.

Principles Rather than Specific Requirements

BC31. The IPSASB acknowledged that entities' presentation of service performance information will vary, depending on:

(a) The services that the entity provides;

(b) The nature of the entity; and

(c) The regulatory environment or other context within which the entity operates.

BC32. Because services provided, service performance objectives, and applicable service performance indicators depend on these different factors, the IPSASB decided that the RPG should not identify specific performance indicators that must be presented. Instead, it should identify broad types of information that should be reported and provide guidance on achievement of the qualitative characteristics when selecting service performance information.

BC33. The RPG identifies different types of performance indicators that could be presented, but does not require that particular performance indicators be presented. While efficiency and effectiveness indicators directly address those aspects of performance, the RPG's objective of providing information for users to assess efficiency and effectiveness does not mean that those two types of performance indicators must be presented. For example, efficiency can be calculated using information about outputs and their cost. Effectiveness can be assessed using information on service performance objectives and results achieved against those service performance objectives.

Information that Conveys a Coherent, Integrated View of the Entity's Service Performance

BC34. The IPSASB considered that the principles focused approach was appropriate because it allows entities at an early stage of developing service performance reporting to meet the RPG's guidelines and report service performance information consistent with their existing reporting capabilities. Nonetheless, the IPSASB's view is that good quality service performance information needs to be reported so that users can assess an entity's service performance, including both its achievement of objectives and the extent to which it has used resources efficiently and effectively to deliver outputs and achieve outcomes. Ideally the set of performance indicators presented should form a holistic system such that they communicate a coherent, integrated view of the entity's service performance.

Selection of Performance Indicators

BC35. The IPSASB considered whether the RPG should require entities to report all five types of performance indicators—inputs, outputs, outcomes, efficiency and effectiveness—for the services that they provide. This would result in comprehensive coverage of an entity's service performance, but it might not reflect an entity's actual service performance focus. In practice it is likely that an entity's service performance objectives will change over time. For example, service performance objectives may initially focus on inputs, then outputs and efficiency, and then outcomes. If an entity is able to adjust its reporting of performance indicators to align them with its service performance objectives, then the information presented is more likely to be useful to users and meet the qualitative characteristics, while supporting achievement of the financial reporting objectives. On that basis the IPSASB decided that the RPG should not require reporting of all five types of indicators but should instead provide guidance on how an entity should choose the types of performance indicators that it reports.

BC36. The IPSASB also considered whether the RPG should require entities to report outcome indicators. Outcome information is important to users, because it focuses on the ultimate reason for service provision, which is the impact that services have on the community. However outcome information can be very difficult for entities to provide, particularly when they are at an early stage in developing their services performance reporting or in situations where the reporting entity is one of many entities contributing to the same outcome(s). On that basis the IPSASB decided that the RPG should encourage but not require entities to present information on outcomes.

Total Costs of Services

BC37. The IPSASB considered providing guidelines on what costs should be included in the total costs of services. Costing of services involves management accounting considerations. The meaning of total costs of services may be jurisdiction specific and/or entity specific. Entities may report total costs of services that are equivalent to the total expense they present in their financial statements. Alternatively entities may exclude some costs, for example overhead, or some expense types, for example borrowing costs, with the result that the total costs of services differs from the total expenses presented in the financial statements. On this basis the IPSASB decided not to stipulate what is meant by the total costs of services.

Location of Service Performance Information

BC38. The IPSASB considered whether service performance information should be located in the same report as the financial statements or in a separate GPFR. It noted that while many national jurisdictions treat service performance information as different in nature and therefore preferably kept separate from information provided with the financial statements, there are also jurisdictions that integrate service performance information into the same report as the financial statements, treating the two sets of information as complimentary. There are benefits to both approaches. In order to allow for jurisdictional differences the IPSASB decided that the RPG should allow entities to report service performance information either in the same report as the financial statements or in a separate report.

Organization of Service Performance Information

BC39. The IPSASB considered whether the RPG should:

(a) Propose one way that service performance information should be organized, with the main method considered being a tabular form, described as a “statement of service performance”; or

(b) Provide principles that should be applied to guide jurisdictions and/or preparers when they choose between different possible information organization approaches.

BC40. The IPSASB noted that in some jurisdictions there are requirements that service performance information be reported in a “statement of service performance”. In other jurisdictions preparers apply principles to identify how best to organize information, with reference to the particular types of services, desired outcomes, or planned achievements on which information needs to be reported. Organizing information into a tabular or statement form can support understandability and comparability when numerical or “summary descriptive” performance indicators (e.g. “satisfactory or unsatisfactory”) are reported on multiple services. But service achievements could be misrepresented or poorly described if a statement format is the only form of presentation permitted.

BC41. The IPSASB decided that the RPG should focus on principles applicable to this decision. By focusing on principles rather than stipulating a standard reporting structure, the RPG allows the choice of information organization to be tailored to:

(a) The nature of the services on which performance information is presented;

(b) The needs of users, so that it supports achievement of the objectives and qualitative characteristics of financial reporting; and

(c) The regulatory context, including the regulatory environment in which the entity operates.

BC42. Although this could result in less standardization, and reduced comparability between entities, service performance information differs from financial statements information due to the diversity of services reported. Unless the performance indicators themselves are comparable, a single presentation format will not provide the benefits of inter-entity comparability, but will sacrifice the benefits to be gained from allowing the organization of information to be tailored to an entity's service performance objectives and services provided so that it meets the needs of users.

Revision of RPG 3 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC43. 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.

Additional Guidance for RPG 3 as a result of *Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative*

BC44. In March 2022, the IPSASB decided to address an urgent stakeholder concern by adding the limited scope project, *Reporting Sustainability Program Information*. The project responds to the need to provide public sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPG) to reporting sustainability program information in general purpose financial reports.

BC45. To clearly communicate the applicability of RPG 3, the IPSASB decided to add non-authoritative guidance to RPG 3 to demonstrate how the authoritative guidance should be applied when reporting on sustainability program information. The IPSASB decided to highlight that the principles and guidance in RPG 3 are relevant for an entity to report on the impact of sustainability programs, to enable transparency and accountability of the program's impact against its objectives.

BC46. The IPSASB decided to add IG1.- IG4. to communicate:

(a) That RPG 3 applies to reporting information related to sustainability programs; and

(b) How RPG 3 can be applied to individual sustainability programs.

BC47. The IPSASB decided to add IE4.-IE8. to illustrate how the guidance in RPG 3 applies to sustainability programs, including:

(a) A program financed by a green bond;

(b) A program financed by a carbon tax;

(c) An investment in infrastructure to mitigate the impacts of climate change; and

(d) A tax expenditure for sustainability investments.

BC48. The IPSASB agreed that IPSAS should be applied to capture the impact of an entity's sustainability-related transactions in general purpose financial statements. RPG 3 provides guidance on disclosures in general purpose financial reports, including the impact of individual programs in achieving its objectives.

BC49. The IPSASB noted that normally illustrative examples developed by the IPSASB show the application of different concepts. However, IE4. - IE8. illustrate similar RPG 3 concepts applied to four different sustainability programs to help communicate how the guidance can be applied to various types of programs.

BC50. ED 83, *Reporting Sustainability Program Information* received strong support from constituents on its proposed implementation guidance and additional illustrative examples. A few constituents suggested editorial changes to the illustrative examples. Some constituents proposed changes beyond the limited scope of ED 83, such as developing a definition of 'sustainability' or 'sustainability program information'. This project introduced amendments to highlight the applicability of existing concepts and principles in RPG 3 that reporting entities can apply when reporting on sustainability program information. The IPSASB decided that recommendations on the broader scope of sustainability reporting in the public sector were beyond the scope of this project.

Implementation Guidance

This guidance accompanies, but is not part of, RPG 3, Reporting Service Performance Information.

Does RPG 3 apply to reporting information related to sustainability programs?

IG1. Yes, RPG 3 provides principles to apply when reporting on an entity's service performance by considering its objectives, and measuring performance against relevant indicators (inputs, outputs, outcomes, efficiency, or effectiveness).

IG2. The RPG 3 principles are applicable for entities that establish service performance objectives related to sustainability programs and can measure performance against relevant overall indicators set by the entity or specific program metrics.

How does RPG 3 apply to an individual sustainability program?

IG3. Decision makers may want to evaluate the governance, strategy, risks and performance associated with sustainability programs as part of delivering the entity's service performance objectives. RPG 3 reporting supports transparency in these key areas which are important both for ensuring accountability and for providing useful information for decision-making purposes.

IG4. The illustrative examples (IE4.–IE8.) in RPG 3 demonstrate the application of the principles to four different types of sustainability programs. This includes how an entity identifies service performance objectives of its respective programs, and how they can be expressed using performance indicators related to inputs, outputs, outcomes, efficiency, or effectiveness, or through a combination of two or more such indicators.

Illustrative Examples

These examples accompany, but are not part of, RPG 3.

IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual situations, all facts and circumstances of a particular situation would need to be evaluated when applying RPG 3. Where a cost is identified the amount is express in “currency units” (CU).

IE2. The first part of this appendix lists examples of terms defined in the RPG. It is not intended to be an exhaustive list of examples for all defined terms. The examples illustrate the meaning of different terms usually through reference to an entity that provides health services. The examples focus on one service— the provision of vaccinations to infants in order to prevent measles. The entity uses a range of inputs to produce its outputs (measles vaccinations). Those outputs are then expected to cause (directly or indirectly) the desired outcome(s).

IE3. The second part of this appendix provides an illustrative list of information that could be included in an entity’s service performance narrative analysis and discussion.

Part 1: Examples of Defined Terms

- Service Performance Objectives (SPO):

  RPG 3 states that service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency, or through a combination of one or more of these four performance indicators. The following are examples of service performance objectives that have these different forms of expression. The first example is of a service performance objective that has a focus on inputs, the second has a focus on outputs, the third has a focus on outcomes, and then the last example has a focus on efficiency.

  - To apply 1,200 full-time equivalent days of medical staff time to vaccination services.
  - To provide 20,000 vaccinations to infants.
  - To reduce the percentage of infants who contract measles annually from 65% to 2% within five years i.e. by the end 20XX.
  - To reduce the total cost per vaccination from CU5 to CU4.

- **Input:** The number of full-time equivalent staff days used to provide vaccinations against measles.
- **Outputs:** The number of infants vaccinated against measles.
- **Outcome:** A reduction in the number of infants that contract measles. (The reduction could be expressed in absolute terms (5,000 fewer incidents of measles) or as a percentage reduction (a 35% percentage reduction in infants contracting measles).

  RPG 3 states that outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity’s services. They could also be impacts on others that are not recipients of the entity’s services but who benefit indirectly from those services. RPG 3 also states that factors beyond the entity’s control may intervene to either hinder or facilitate the entity’s achievement of outcomes. The first example below illustrates an outcome that affects a particular group within society. The second and third examples illustrate a direct impact on service recipients and an indirect impact on non-recipients. The fourth example illustrates a situation where factors beyond the entity’s control intervenes to facilitate the entity’s achievement of an outcome.

  - A 35% reduction in the incidence of measles for infants within the lowest socio-economic decile.
  - A reduction in the number of incidents of measles experienced by recipients of measles vaccinations provided by the entity is an example of a direct impact on the recipients of the entity’s services.

- Children going to the same schools as those that vaccinated children attend but who have not received a vaccination will also be impacted indirectly by the entity's vaccination services, because their risk of contracting measles is reduced.
- An outbreak of measles in a nearby region leads to extensive media coverage of measles related health risks and an increased vaccination rate in that nearby region covered by another health services provider. These factors facilitate achievement of the entity's outcome to reduce the incidence of measles in its own region. The factors evident in the other region (measles outbreak, media coverage and increased vaccination rate) are outside of the control of the entity.

- **Efficiency:**

RPG 3 states that efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes. The two examples in the first bullet point below illustrate efficiency expressed as the relationship between inputs and outputs. The example in the second bullet point illustrates efficiency expressed in terms of inputs and outcomes.

- "Cost per infant vaccinated" is an example of an efficiency indicator that relates outputs (vaccinations) to an input (cost). Efficiency may also be expressed in terms of other inputs such as, for example, number of staff or staff time. For example, 1,000 vaccinations annually per qualified medical staff member.
- "Cost per reduction in number of infants contracting measles" is an example of an efficiency indicator that relates an outcome (reduction in number of infants contracting measles) to an input (cost).

- **Effectiveness:**

RPG 3 states that effectiveness is the relationship between actual results and service performance objectives. Therefore an assessment of effectiveness depends on the type of service performance objectives that the entity has presented. The three examples below illustrate effectiveness for different service performance objectives. The first example illustrates effectiveness where the service performance objective was expressed in terms of inputs, the second in terms of outputs, and the third in terms of an outcome.

- The service performance objective was to dedicate 20,000 hours of medical staff time to provision of measles vaccinations during the year ended 31 March 20XX. The actual result achieved was 18,000 hours of medical staff time. Therefore the entity effectiveness in this area was 90%.
- The service performance objective was to provide 100,000 measles vaccinations to infants during the year ended 31 March 20XX. The actual result achieved was 99,000 vaccinations. Therefore the entity's effectiveness in this area was 99%.
- The service performance objective was to reduce the number of infants that contract measles by 3,000 compared to the previous year. The actual result achieved was a 3,000 reduction in infants contracting measles. Therefore the entity's effectiveness in this area was 100%.

- **Performance indicator—Qualitative Description:**

RPG 3 states that performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives. The example below illustrates a performance indicator expressed as a qualitative description:

A government department (the Ministry) responsible for supporting the government's relationships with other nations, including trade relationships, uses the following qualitative description as one of its performance indicators:

Engagement with Latin America during this year is expected to include several successful ministerial-led business missions to national governments and ministerial engagement in two regional forums. The Ministry will provide host and other support for ministerial level visits from several countries in the region, and undertake bilateral foreign policy consultations. Consultations will include advocacy of free trade agreements. The diplomatic network in several Latin America countries will be expanded through additional consulates and honorary consuls.

Part 2: Narrative Discussion and Analysis—Types of Information

The following list provides examples of the different types of information that could be included in narrative discussion and analysis to help users' assessment of an entity's service performance:

(a) Particular service performance achievements, deficiencies and issues.

(b) Identification and discussion of the factors that may have influenced achievement (or non-achievement) of service performance objectives.

(c) Effectiveness indicators.

(d) Discussions of differences between planned and actual achievements.

(e) Comparisons of indicators:

  (i) Over time;

  (ii) To milestones; and/or,

  (iii) Between actual and planned results.

(f) Reasons for change(s), if the service performance objectives or performance indicators presented have changed compared to those presented for the previous year.

(g) Where an entity has multi-year service performance objectives, narrative about progress towards their achievement.

(h) Where outcomes are reported, information on the extent to which outcomes can be attributed to the entity's activities.

(i) Significant lessons learned during the reporting period with respect to the entity's service performance including, where relevant, plans on ways to address issues affecting service performance and areas that require further evaluation.

(j) Identification and discussion of the risks associated with the delivery of services and, if risk assessments for services have been carried out, information on how such risk trade-off decisions are informed and managed.

(k) Identification and discussion of the consequences—intended and unintended, direct and indirect—of the services provided.

If an entity provides a discussion of differences between planned and actual achievements this discussion could include, for example:

(a) Identification of the size of the variances; and

(b) Factors contributing to the variances. (For example, external factors, efficiencies or inefficiencies in internal processes, resource availability, or government service delivery decisions.)

The achievement of outcomes is often influenced by factors outside of the entity's control. If an entity provides narrative discussion and analysis on outcomes the disclosures should be sufficient to ensure that users do not overestimate the entity's role with respect to either improving or worsening outcomes. Where outcome information is displayed, information on the following may be useful for users:

(a) The extent to which the outcomes can be attributed to the entity's activities, and

(b) Other factors that may have influenced the outcomes.

The delivery of public services often follows a risk assessment, involving clear parameters around tolerance of different types of risks, including the risk of false positives and false negatives with respect to intervention decisions. Information on how an entity assesses risks as part of service delivery can support users' understanding of an entity's service performance.

Examples Related to Reporting Sustainability Program Information

IE4. A general overview of how to apply the RPG 3 principles when reporting service performance information is provided in IE1.– IE3. Specific examples of how to report service performance information related to sustainability programs are provided in IE5.– IE8. These examples are not exhaustive and are meant to provide entities with a simplified fact pattern for illustrative purposes on how to report on service performance objectives of sustainability programs. An entity needs to evaluate all relevant facts and circumstances of its specific programs when applying the RPG 3 guidance.

Example 1—Program Financed by a Green Bond

IE5. Green bonds may be used by entities to raise funds for investment in sustainability programs, for example, environmental or climate change mitigation programs. Issuers of such green bonds may identify specific metrics or targets to provide investors with information on the performance of the program in achieving those targets. Below is an example of a program financed by a green bond, The example shows how to apply RPG 3 for reporting on the program.

Green Bond Details and Objectives:

- On January 1, 20x0 Entity A issued a green bond to fund a reforestation program with the goal of planting 100 million trees by the end of the year at a cost of CU4 per tree.
- The reforestation program's target outcome is the absorption of 997,900 tons of CO_2 per year ((100 million trees x 22 pounds of CO_2 absorbed per tree) divided by 2,204.63 pounds in tons) for the first 20 years.
- At the end of 20x0, forestry staff had planted 85 million trees and determined that the CO_2 absorbed by the reforestation program in year 1 was 578,328 tons of CO_2 ((85 million trees x 15 pounds of CO_2 absorbed per tree) divided by 2,204.63 pounds in tons).
- The actual cost to plant each tree in the reforestation program was CU4.1 (CU348.5 million/85 million trees).

Performance Indicators:

- Inputs: The cost to plant each tree.
- Outputs: The number of trees planted.
- Outcome: Total CO_2 absorbed.
- Efficiency:
  - o The cost per tree planted was CU4.1, i.e., higher than the expected cost of CU4. The total number of trees planted fell short by 15 million trees (100 million less 85 million). The cost per ton of CO_2 absorbed was CU 603 (CU348.5 million/578,328 CO_2 tons), while the planned cost per ton of CO_2 was CU 401 (CU 400 million/997,900 CO_2 tons). The higher cost of CO_2 tons per CU spent shows a lower absorption of CO_2, which could be attributed to a number of factors, including the gradual process of planting trees, a lower number of trees planted by the program than planned, and a lower survival rate of planted trees.
- Effectiveness:

- o Input: 102.5% (the actual cost to plant a tree over the target cost to plant a tree – CU4.1/CU4) because the actual cost to plant the trees (CU348.5 million) was less than the planned cost (CU400 million) and the actual number of trees planted (85 million) fell short of the target number of trees to be planted (100 million).
- o Output: 85% (the actual number of trees planted over the target number of trees to be planted – 85 million/100 million) because fewer trees were planted than planned.
- o Outcome: 58% (the absorption of CO_2 at the end of year 1 over the target absorption of CO_2 in year 1 – 578,328 tons of CO_2/997,900 tons of CO_2) because less carbon was absorbed than planned.

Example 2—Program Financed by a Carbon Tax

IE6. Carbon taxes may be used by entities to generate revenue to fund investment in sustainability programs, including those to fund investment in climate change mitigation. Carbon tax programs often have specific metrics or targets. This information can be used by the entity to report on the performance against the program objectives. Below is an example of a program financed by a carbon tax. The example shows how to apply RPG 3 for reporting on the program.

Carbon Tax Details and Objectives:

- On January 1, 20x1 Jurisdiction B implements a carbon tax to generate revenue to fund the installation of 10,000 electrical vehicle (EV) charging stations over the next 15 years along their highways.
- The objective of Jurisdiction B's program is to incentivize the development of the zero-emission vehicles (ZEV) market so that ZEVs make up 100% of the 460,000 new light-duty vehicles sold per year, within 15 years.
- The program's target for year 1, which starts in 20x2, is to install 600 EV charging stations (expected to cost CU28,500 to install each charging station) and for ZEV sales to comprise 26% of new light-duty sales in Jurisdiction B (119,600).
- At the end of 20x2, Jurisdiction B invested CU13.11 million to install 460 EV charging stations and 18% (85,000/460,000) of all new light-duty vehicle sales were ZEV.

Performance Indicators:

- Input: The cost to install each EV charging station.
- Output: The number of EV charging stations installed.
- Outcome: ZEV market share of the new light-duty vehicles market.
- Efficiency:
  - o The cost per EV charging station installed was CU28,500 (CU13.11 million/460 EV charging stations), achieving the 20x2 target cost per station. However, the program only resulted in 460 EV charging station installations falling short by 140 (the plan was to complete 600 EV charging stations). The cost incurred by Jurisdiction B to incentivize the purchase of new light-duty ZEV in 20x2 was CU154 per ZEV (CU13.11 million/85,000 new light-duty ZEV). The program's planned cost was CU143 per additional new light-duty ZEV sold, however, this expectation was based on capturing 26% of the market, instead of 18% captured in 20x2.
- Effectiveness:
  - o Input: 100% (the actual cost to install an EV charging station over the target cost to install an EV charging station – CU28,500/CU28,500) because the cost planned was achieved.

- Output: 77% (the actual number of EV charging stations installed over the target number of planned EV charging station installations – 460/600) because fewer EV charging stations were installed than planned.
- Outcome: 71% (the actual number of new light-duty ZEV sold over the target (85,000/119,600) because the market share achieved of 18% was lower than the 26% targeted.

Example 3—Investment in Infrastructure to Mitigate the Impacts of Climate Change

IE7. Investments in infrastructure can be used by entities to help restore the natural environment and mitigate the impact of climate change. Such investments often identify specific metrics or targets the investments are intended to achieve, including those related to service delivery. This information can be used by the entity to report on the performance of the program in achieving the program objectives. Below is an example of an investment in green infrastructure (i.e., rain garden) financed by environmental penalties collected to mitigate the impacts of climate change. The example shows how to apply RPG 3 when reporting on the program.

Investment in Infrastructure Details and Objectives:

- Community C utilizes funds collected from environmental penalties to provide funding for programs helping restore the environment, through 'green infrastructure' programs, such as installing rain gardens to reduce the risk of flooding and help communities adapt to climate change.
- In 20x1, Community C made CU250,000 available for the installation of rain gardens in residential homes and small businesses, with an average cost of CU5,556 each (CU250,000/45 rain gardens).
- A water management consultant report states that the plan to install 45 rain gardens is estimated to reduce instances of flooding by 60% (30 fewer flooding instances).
- Rain levels between 20x0 and 20x1 were consistent, 50 flooding instances were noted in 20x0, and after issuing funding of CU150,000 for 25 rain gardens in 20x1 there were 17 fewer flooding instances (34% reduction).

Performance Indicators:

- Input: Funding collected from environmental penalties and available for rain gardens.
- Output: The number of rain gardens funded by Community C.
- Outcome: Reduction of residential and small business flooding instances.
- Efficiency:
    - The cost per rain garden was CU6,000 (CU150,000/25 rain gardens), CU444 over the target cost. There were only 17 fewer flooding instances than the estimated 30, which can be attributed to the lower number of rain gardens funded by the program (45 rain gardens were estimated to be funded, but only 25 were funded and completed in 20x1). The cost per reduction in flooding instances was CU490 higher per flooding instance, as the planned cost was CU8,333 (CU250,000/30 reductions of flooding instances) and the actual cost was CU8,823 (CU150,000/17 reductions of flooding instances).
- Effectiveness:
    - Input: 60% (the actual funding provided for rain gardens over the target funding available – CU150,000/CU250,000) because less funding was provided than was available.
    - Output: 56% (the actual number of rain gardens funded over the target number of rain gardens planned – 25/45) because fewer rain gardens were funded than planned.

- Outcome: 57% (the actual reduction of flooding instances over the target reduction of flooding instances – 17/30) because fewer flooding instances were prevented than planned.

Example 4—Tax Expenditures for Sustainability Investments

IE8. Tax expenditures[1] can be used to incentivize private investment to improve energy efficiency and reduce energy consumption. Such programs encourage investments and often identify specific metrics or targets the investments are intended to achieve. This information can be used by the entity to report on the program performance in achieving its objectives. Below is an example of a tax expenditure program to encourage energy efficiency improvements through conservation that sets out how to apply RPG 3 when reporting on the program.

Tax Expenditure Details and Objectives:

- In 20x6, Country A introduced a tax credit to incentivize energy-efficient renovations of CU525 million (approximately 80,000 renovations) to decrease energy consumption, specifically natural gas, by 15% in 20x7.
- In 20x7, an income tax credit of CU300 million was given by Country A on housing energy efficiency expenditures.
- The tax credit for energy transition triggered about 60,000 additional eligible energy-efficient renovations and accounted for a reduction of 7% (94,007,117 MMcf[2]) in the natural gas consumption in residential properties in 20x7 (the 20x7 total natural gas consumption was 1,342,958,820 MMcf).

Performance Indicators:

- Input: The total amount of tax credits provided
- Output: The number of eligible energy-efficient renovations completed.
- Outcome: Reduction in energy consumption.
- Efficiency:
    - The average tax expenditure provided for each energy-efficient renovation was CU5,000, resulting in a lower tax expenditure than planned of CU6,563 per renovation (CU525 million/80,000 renovations). The actual cost per unit of energy conservation was CU3.191 per MMcf (CU300 million/94,007,117 MMcf), which was higher than planned at 2.606 per MMcf (CU525 million/201,443,823 MMcf). This could be attributed to fewer actual renovations (60,000) than planned (80,000) and less energy savings per renovation – 1,566.78 MMcf per renovation (94,007,117.40 MMcf/60,000 renovations) instead of 2,518.05 MMcf per renovation (201,443,823 MMcf/80,000 renovations).
- Effectiveness:
    - Input: 57% (the actual tax credit issued for eligible energy-efficient renovations over the target announced – CU300 million/CU525 million) because the tax expenditures issued were below the target.
    - Output: 75% (the actual number of eligible energy-efficient renovations over the target – 60,000/80,000) because there were fewer energy-efficient renovations than planned.
    - Outcome: 47% (the actual natural gas consumption reduction over the target – 7%/15%) because the reduction in natural gas consumption achieved was lower than planned.

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1 This term is defined in the Glossary of Defined Terms.

2 One million cubic feet of natural gas.

GLOSSARY OF DEFINED TERMS

This Glossary contains all terms defined in the 49 accrual basis International Public Sector Accounting Standards (IPSAS) approved up to January 31, 2024. A list of these IPSAS Standards is located on the inside back cover of the Glossary. This Glossary does not include terms defined in the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. Users should refer to that Cash Basis IPSAS for these terms.

Definitions

References to accrual basis IPSAS Standards are by Standard number and paragraph number. For example, 1.7 refers users to IPSAS 1, *Presentation of Financial Statements*, paragraph 7. References set out in brackets indicate a minor variation in wording.

Term	Definition	Location
12-month expected credit loss	The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.	41.9
accounting policies	The specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.	3.7
accrual basis	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.	1.7
acquired operation	The operation that the acquirer gains control of in an acquisition.	40.5
acquirer	The entity that gains control of one or more operations in an acquisition.	40.5
acquisition	A public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.	40.5
acquisition date	The date on which the acquirer gains control of the acquired operation.	40.5
active market	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.	21.14
active market Applicable for periods beginning on or after January 1, 2025.	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.	46.6

Term	Definition	Location
actuarial gains and losses	Changes in the present value of the defined benefit obligation resulting from: (a) Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) The effects of changes in actuarial assumptions.	39.8
Actuarial present value of promised retirement benefits Applicable for periods beginning on or after January 1, 2026.	The present value of the expected payments by a retirement benefit plan to participants attributable to service, as employees, already rendered.	49.9
agricultural activity	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.	27.9
agricultural produce	The harvested produce of the entity’s biological assets.	27.9
amalgamation	Gives rise to a resulting entity and is either: (a) A public sector combination in which no party to the combination gains control of one or more operations; or (b) A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.	40.5
amalgamation date	The date on which the resulting entity obtains control of the combining operations.	40.5
amortization	The systematic allocation of the depreciable amount of an intangible asset over its useful life.	31.16
amortized cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.	41.9

Term	Definition	Location
annual budget	An approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.	24.7
appropriation	An authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority	24.7
approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.	24.7
assets	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.	1.7
asset ceiling	The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.	39.8
assets held by a long-term employee benefit fund	Assets (other than non-transferable financial instruments issued by the reporting entity) that: (a) Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and (b) Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either: (i) The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or (ii) The assets are returned to the reporting entity to reimburse it for employee benefits already paid.	39.8
bearer plant	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.	17.13, 27.9
benefits	The advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.	35.14

Term	Definition	Location
binding arrangement (for a service concession arrangement)	Describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.	32.8
binding arrangement (for a joint arrangement)	An arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.	35.14
binding arrangement (for revenue transactions) Applicable for periods beginning on or after January 1, 2026.	For the purposes of this Standard, an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.	47.4
binding arrangement asset Applicable for periods beginning on or after January 1, 2026.	An entity’s right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity’s future performance).	47.4
binding arrangement liability Applicable for periods beginning on or after January 1, 2026.	an entity’s obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.	47.4
biological asset	A living animal or plant.	27.9
biological transformation	Comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.	27.9
borrowing costs	Interest and other expenses incurred by an entity in connection with the borrowing of funds.	5.5
budgetary basis	The accrual, cash, or other basis of accounting adopted in the budget that has been approved by the legislative body.	24.7
capital transfer Applicable for periods beginning on or after January 1, 2026.	From the perspective of a resource recipient, an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. (Paragraph AG140 provides additional guidance.)	47.4

Term	Definition	Location
capital transfer Applicable for periods beginning on or after January 1, 2026.	From the perspective of a transfer provider, an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient.	48.6
carrying amount (of an intangible asset)	The amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses.	31.16
carrying amount (of investment property)	The amount at which an asset is recognized in the statement of financial position.	16.7
carrying amount (of property, plant, and equipment)	The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.	17.13, 45.5
carrying amount of a liability	The amount at which a liability is recognized in the statement of financial position.	10.7
carrying amount of an asset	The amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.	10.7
cash	Comprises cash on hand and demand deposits.	2.8
cash equivalents	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.	2.8
cash flows	Inflows and outflows of cash and cash equivalents.	2.8
cash-generating assets	Assets held with the primary objective of generating a commercial return.	21.14
cash-generating unit	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.	26.13, 44.9
change in accounting estimate	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.	3.7

Term	Definition	Location
class of property, plant, and equipment	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.	17.13, 45.5
close members of the family of an individual	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.	20.4
closing rate	The spot exchange rate at the reporting date.	4.10
collective services	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.	19.18
combining operation	An operation that combines with one or more other operations to form the resulting entity in an amalgamation.	40.5
commencement of the lease term Applicable up to periods beginning on or before December 31, 2024.	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).	13.8
commencement date of the lease Applicable for periods beginning on or after January 1, 2025	The date on which a lessor makes an underlying asset available for use by a lessee.	43.5
comparable basis	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.	24.7
compliance obligation Applicable for periods beginning on or after January 1, 2026.	An entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.	47.4
component of an entity Applicable for periods beginning on or after January 1, 2025.	Comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.	44.9

Term	Definition	Location
conditions on transferred assets	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.	23.7
consolidated financial statements	The financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.	34.6
construction contract	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.	11.4
constructive obligation	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.	19.18
contingent asset	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.	19.18
contingent consideration	Usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.	40.5
contingent liability	(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	19.18

Term	Definition	Location
	(ii) The amount of the obligation cannot be measured with sufficient reliability.	
contingent rent Applicable up to periods beginning on or before December 31, 2024.	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).	13.8
contract Applicable for periods beginning on or after January 1, 2025	For the purpose of this Standard, is an agreement between two or more parties that creates enforceable rights and obligations.	43.5
contractor	An entity that performs construction work pursuant to a construction contract.	11.4
contributions from owners	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.	1.7
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.	2.8
control of an asset	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.	23.7
controlled entity	An entity that is controlled by another entity.	35.14
controlling entity	An entity that controls one or more entities.	35.14
cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or	16.7

Term	Definition	Location
	construction.	
cost approach Applicable for periods beginning on or after January 1, 2025	A measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).	46.6
cost plus or cost- based contract	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.	11.4
costs of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.	21.14
cost of fulfillment Applicable for periods beginning on or after January 1, 2025	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.	46.6
costs to sell	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.	27.9
costs to sell Applicable for periods beginning on or after January 1, 2025	The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.	44.9
credit-adjusted effective interest rate	The rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortized cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see [IPSAS 41] paragraphs AG156–AG158), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	41.9

Term	Definition	Location
credit-impaired financial asset	A financial asset that is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events: (a) Significant financial difficulty of the issuer or the borrower; (b) A breach of contract, such as a default or past due event; (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; (e) The disappearance of an active market for that financial asset because of financial difficulties; or (f) The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.	41.9
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.	41.9
credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	30.8
credit risk rating grades	A rating of credit risk based on the risk of a default occurring on the financial instrument	30.8
currency risk	The risk that the fair value or future cash flows of a financial instrument will	30.8

Term	Definition	Location
	fluctuate because of changes in foreign exchange rates.	
current asset Applicable for periods beginning on or after January 1, 2025	An entity shall classify an asset as a current asset when: (a) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle; (b) It holds the asset primarily for the purpose of trading; (c) It expects to realize the asset within twelve months after the reporting period; or (d) The asset is cash or a cash equivalent (as defined in IPSAS 2, *Cash Flow Statements*) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.	44.9
current operational value Applicable for periods beginning on or after January 1, 2025	The amount the entity would pay for the remaining service potential of an asset at the measurement date.	46.6
current replacement cost	The cost the entity would incur to acquire the asset on the reporting date.	12.9
customer Applicable for periods beginning on or after January 1, 2026.	A party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.	47.4
date of adoption of IPSAS	The date an entity adopts accrual basis IPSAS for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.	33.9
decision maker	An entity with decision-making rights that is either a principal or an agent for other parties.	35.14
deemed cost Applicable up to periods beginning on or before December 31, 2024.	An amount used as a surrogate for acquisition cost or depreciated cost at a given date.	33.9
deemed cost Applicable for periods beginning on or after January 1, 2025.	An amount used as a surrogate for transaction price at the measurement date.	46.6

Term	Definition	Location
deficit or surplus Applicable up to periods beginning on or before December 31, 2024.	Is: (a) The present value of the defined benefit obligation less (b) The fair value of plan assets (if any).	39.8
deficit or surplus Applicable for periods beginning on or after January 1, 2025.	Is: (a) The present value of the defined benefit obligation less (b) The fair value (as defined in IPSAS 46, *Measurement*) of plan assets (if any).	39.8
defined benefit plans	Post-employment benefit plans other than defined contribution plans.	39.8
defined benefit plans Applicable for periods beginning on or after January 1, 2026.	For the purposes of this Standard, retirement benefit plans other than defined contribution plans.	49.9
defined contribution obligations Applicable for periods beginning on or after January 1, 2026.	The amounts owed to participants under the terms of a defined contribution plan.	49.9
defined contribution plans Applicable for periods beginning on or after January 1, 2026.	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.	39.8
defined contribution plans Applicable for periods beginning on or after January 1, 2026.	For the purposes of this Standard, retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.	49.9
depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value.	17.13, 45.5
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.	17.13, 45.5
derecognition	The removal of a previously recognized financial asset or financial liability from an entity's statement of financial position.	41.9

Term	Definition	Location
derivative	A financial instrument or other contract within the scope of this Standard with all three of the following characteristics. (a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'). (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. (c) It is settled at a future date.	41.9
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.	31.16
distributions to owners	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.	1.7
discontinued operation Applicable for periods beginning on or after January 1, 2025.	A component of an entity that either has been disposed of or is classified as held for sale and: (a) Represents a separate major operation or geographical area of operations; (b) Is part of a single coordinated plan to dispose of a separate operation or geographical area of operations; or (c) Is a controlled entity acquired exclusively with a view to resale.	44.9
disposal group Applicable for periods beginning on or after January 1, 2025.	A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a public sector combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 90A–90H of IPSAS 26, Impairment of Cash-Generating Assets or if it is an operation within such a cash-generating unit.	44.9
dividends or similar distributions	Distributions to holders of equity instruments in proportion to their holdings of a particular class of capital	41.9

Term	Definition	Location
economic entity	A controlling entity and its controlled entities.	1.7, 35.14
economic life Applicable up to periods beginning on or before December 31, 2024.	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.	13.8
economic life Applicable for periods beginning on or after January 1, 2025.	Either: (a) The period over which an asset is expected to be economically usable by one or more users; or (b) The number of production or similar units expected to be obtained from an asset by one or more users.	43.5
effective date of the modification Applicable for periods beginning on or after January 1, 2025.	The date when both parties agree to a lease modification	43.5
effective interest method	The method that is used in the calculation of the amortized cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in surplus or deficit over the relevant period.	41.9
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see [IPSAS 41] paragraphs AG156–AG158), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	41.9
employee benefits	All forms of consideration given by an entity in exchange for service	39.8

Term	Definition	Location
	rendered by employees or for the termination of employment.	
entity-specific value	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.	17.13
entry price Applicable for periods beginning on or after January 1, 2025.	The price paid to acquire an asset or received to assume a liability in an exchange transaction.	46.6
equity interests	For the purposes of this Standard, is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.	40.5
equity instrument	Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.	28.9
equity method (relating to interests in other entities)	Method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.	36.8
events after the reporting date	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).	14.5
exchange difference	The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.	4.10
exchange rate	The ratio of exchange for two currencies.	4.10
exchange transactions Applicable up to periods beginning on or before December 31, 2025.	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	9.11

Term	Definition	Location
exchange transactions Applicable for periods beginning on or after January 1, 2026.	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	12.9
exit price Applicable for periods beginning on or after January 1, 2025.	The price received to sell an asset or paid to transfer a liability.	46.6
executory contracts	Contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.	19.18
expected cash flow Applicable for periods beginning on or after January 1, 2025.	The probability-weighted average (i.e., mean of the distribution) of possible future cash flows.	46.6
expected credit loss	The weighted average of credit losses with the respective risks of a default occurring as the weights.	41.9
expenses	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.	1.7
expenses paid through the tax system	Amounts that are available to beneficiaries regardless of whether or not they pay taxes.	23.7, 47.4
fair value Applicable up to periods beginning on or before December 31, 2024.	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	9.11
fair value Applicable for periods beginning on or after January 1, 2025.	For the purpose of applying the lessor accounting requirements in this Standard, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	43.5
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	46.6

Term	Definition	Location
Applicable for periods beginning on or after January 1, 2025.		
fair value less costs to sell	The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.	21.14
final budget	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	24.7
finance lease Applicable up to periods beginning on or before December 31, 2024.	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.	13.8
finance lease Applicable for periods beginning on or after January 1, 2025.	A lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.	43.5
financial asset	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	28.9

Term	Definition	Location
	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.	
financial guarantee contract	A contract that requires 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 or modified terms of a debt instrument.	41.9
financial instrument	Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.	28.9
financial liability	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 [IPSAS 28] 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	28.9

Term	Definition	Location
	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.	
financial liability at fair value through surplus or deficit	A financial liability that meets one of the following conditions: (a) It meets the definition of held for trading. (b) Upon initial recognition it is designated by the entity as at fair value through surplus or deficit in accordance with [IPSAS 41] paragraph 46 or 51. (c) It is designated either upon initial recognition or subsequently as at fair value through surplus or deficit in accordance with [IPSAS 41] paragraph 152.	41.9
financing activities	Activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.	2.8
fines Applicable up to periods beginning on or before December 31, 2025.	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.	23.7
fines Applicable for periods beginning on or after January 1, 2026.	Economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.	47.4
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.	41.9
firm purchase commitment Applicable for periods beginning on or after January 1, 2025.	An agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.	44.9
first IPSAS financial statements	The first annual financial statements in which an entity complies with the accrual basis IPSAS and can make an explicit and unreserved statement of compliance with those IPSAS because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.	33.9

Term	Definition	Location
first-time adopter	An entity that adopts accrual basis IPSAS for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements.	33.9
fixed payments Applicable for periods beginning on or after January 1, 2025.	Payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments	43.5
fixed price contract	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.	11.4
forecast transaction	An uncommitted but anticipated future transaction.	41.9
foreign currency	A currency other than the functional currency of the entity.	4.10
foreign operation	An entity that is a controlled entity, associate, joint venture, 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.	4.10
functional currency	The currency of the primary economic environment in which the entity operates.	4.10
funding Applicable for periods beginning on or after January 1, 2026.	The transfer of assets to an entity (the retirement benefit plan) separate from the employer/sponsor to meet future obligations for the payment of retirement benefits.	49.9
general government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting	22.15
goodwill	An asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized.	40.5
grantor (in a service concession arrangement)	The entity that grants the right to use the service concession asset to the operator.	32.8
gross carrying amount of a financial asset	The amortized cost of a financial asset, before adjusting for any loss allowance.	41.9

Term	Definition	Location
gross investment in the lease Applicable up to periods beginning on or before December 31, 2024.	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.	13.8
gross investment in the lease Applicable for periods beginning on or after January 1, 2025.	The sum of: (a) The lease payments receivable by the lessor under a finance lease; and (b) Any unguaranteed residual value accruing to the lessor.	43.5
group of biological assets	An aggregation of similar living animals or plants.	27.9
guaranteed residual value Applicable up to periods beginning on or before December 31, 2024.	(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.	13.8
harvest	The detachment of produce from a biological asset or the cessation of a biological asset's life processes.	27.9
hedged item	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 ([IPSAS 29] paragraphs 87–94 and Appendix A paragraphs AG131–AG141 elaborate on the definition of hedged items).	29.10
hedge effectiveness	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 [IPSAS 29] Appendix A paragraphs AG145–AG156).	29.10
hedge ratio	The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.	41.9
hedging instrument	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 ([IPSAS 29] paragraphs 81–86 and Appendix A paragraphs	29.10

Term	Definition	Location
	AG127–AG130 elaborate on the definition of a hedging instrument).	
held for trading	A financial asset or financial liability that: (a) Is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) On initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) Is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).	41.9
highest and best use Applicable for periods beginning on or after January 1, 2025.	The use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.	46.6
highly probable Applicable for periods beginning on or after January 1, 2025.	Means significantly more likely than probable.	44.9
historical cost Applicable for periods beginning on or after January 1, 2025.	The consideration given to acquire, construct, or develop an asset plus transaction costs, or the consideration received to assume a liability minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.	46.6
identifiable	An asset is identifiable if it either: (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.	40.5
impairment	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.	21.14
impairment gain or loss	Recognized in surplus or deficit in accordance with [IPSAS 41] paragraph 80 and that arises from applying the impairment requirements in [IPSAS 41] paragraphs 73–93.	41.9

Term	Definition	Location
impairment loss of a cash-generating asset	The amount by which the carrying amount of an asset exceeds its recoverable amount.	17.13
impairment loss of a non-cash-generating asset	The amount by which the carrying amount of an asset exceeds its recoverable service amount.	17.13
impracticable (1)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.	1.7
impracticable (2)	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.	3.7
income approach Applicable for periods beginning on or after January 1, 2025.	A measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.	46.6
inception of the lease Applicable up to periods beginning on or before December 31, 2024.	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.	13.8
inception date of the lease	The earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.	43.5

Term	Definition	Location
Applicable for periods beginning on or after January 1, 2025.		
individual services	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.	19.18
initial direct costs Applicable up to periods beginning on or before December 31, 2024.	Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.	13.8
initial direct costs Applicable for periods beginning on or after January 1, 2025.	Incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.	43.5
Inputs Applicable for periods beginning on or after January 1, 2025.	The assumptions used when pricing the asset or liability, including assumptions about risk, such as the following: (a) The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and (b) The risk inherent in the inputs to the measurement technique. Inputs may be observable or unobservable.	46.6
intangible asset	An identifiable non-monetary asset without physical substance.	31.16
interest in another entity	Refers to involvement by way of binding arrangements or otherwise that exposes an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.	37.7
interest rate implicit in the lease Applicable up to periods beginning on or before December 31, 2024.	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.	13.8

Term	Definition	Location
interest rate implicit in the lease Applicable for periods beginning on or after January 1, 2025.	The rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.	43.5
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.	30.8
inventories	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.	12.9
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.	2.8
investment entity	An entity that: (a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.	35.14
investment property	Property (land or a building – or part of a building – or both) held 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.	16.7
joint arrangement	An arrangement of which two or more parties have joint control.	36.8
joint control	The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.	36.8
joint operation	A joint arrangement whereby the parties that have joint control of the	37.7

Term	Definition	Location
	arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.	
joint operator	A party to a joint operation that has joint control of that joint operation.	37.7
joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.	36.8
joint venturer	A party to a joint venture that has joint control of that joint venture.	36.8
key management personnel	(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.	20.4
lease Applicable up to periods beginning on or before December 31, 2024.	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.	13.8
lease Applicable for periods beginning on or after January 1, 2025.	A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.	43.5
lease incentives Applicable for periods beginning on or after January 1, 2025.	Payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.	43.5
lease modification Applicable for periods beginning on or after January 1, 2025.	A change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).	43.5

Term	Definition	Location
lease payments Applicable for periods beginning on or after January 1, 2025.	Payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following: (a) Fixed payments (including in-substance fixed payments), less any lease incentives; (b) Variable lease payments that depend on an index or a rate; (c) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (d) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.	43.5
lease term Applicable up to periods beginning on or before December 31, 2024.	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.	13.8
lease term Applicable for periods beginning on or after January 1, 2025.	(e) The non-cancellable period for which a lessee has the right to use an underlying asset, together with both: (a) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.	43.5
legal obligation	An obligation that derives from: (a) A contract (through its explicit or implicit terms); (b) Legislation; or (c) Other operation of law.	19.18
lessee Applicable for periods beginning on or after January 1, 2025.	An entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.	43.5
lessee's incremental borrowing rate of interest Applicable up to periods beginning on or before December 31, 2024.	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.	13.8
lessee's incremental borrowing rate	The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of	43.5

Term	Definition	Location
Applicable for periods beginning on or after January 1, 2025.	a similar value to the right-of-use asset in a similar economic environment.	
lessor Applicable for periods beginning on or after January 1, 2025.	An entity that provides the right to use an underlying asset for a period of time in exchange for consideration.	43.5
level 1 inputs Applicable for periods beginning on or after January 1, 2025.	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	46.6
level 2 inputs Applicable for periods beginning on or after January 1, 2025.	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	46.6
level 3 inputs Applicable for periods beginning on or after January 1, 2025.	Unobservable inputs for the asset or liability.	46.6
liabilities	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.	1.7
lifetime expected credit losses	The expected credit losses that result from all possible default events over the expected life of a financial instrument.	41.9
liquidity risk	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.	30.8
loans payable	Financial liabilities, other than short-term trade payables on normal credit terms.	30.8
loss allowance	The allowance for expected credit losses on financial assets measured in accordance with paragraph 40, lease receivables, the accumulated impairment amount for financial assets measured in accordance with [IPSAS 41] paragraph 41 and the provision for expected credit losses on loan commitments and financial guarantee contracts.	41.9

Term	Definition	Location
market approach Applicable for periods beginning on or after January 1, 2025.	A measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.	46.6
market participants Applicable for periods beginning on or after January 1, 2025.	Are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: (a) They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, *Related Party Disclosures*, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) They are able to enter into a transaction for the asset or liability. (d) They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.	46.6
market-corroborated inputs Applicable for periods beginning on or after January 1, 2025.	Inputs that are derived principally from or corroborated by observable market data by correlation or other means.	46.6
market risk	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.	30.8
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.	1.7
minimum lease payments Applicable up to periods beginning on or before December 31, 2024.	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	13.8

Term	Definition	Location
	(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.	
modification gain or loss	The amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows. The entity recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset that are discounted at the financial asset's original effective interest rate (or the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate calculated in accordance with [IPSAS 41] paragraph 139. When estimating the expected cash flows of a financial asset, an entity shall consider all contractual terms of the financial asset (for example, prepayment, call and similar options) but shall not consider the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset, in which case an entity shall also consider the initial expected credit losses that were considered when calculating the original credit-adjusted effective interest rate.	41.9
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.	4.10
most advantageous market Applicable for periods beginning on or after January 1, 2025.	The market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.	46.6
multi-employer plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:	39.8

Term	Definition	Location
	(a) Pool the assets contributed by various entities that are not under common control; and (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.	
multi-year budget	An approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.	24.7
mutual entity	An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.	40.5
net assets/equity	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 17, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*); (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);	1.7

Term	Definition	Location
	(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).	
net assets available for benefits Applicable for periods beginning on or after January 1, 2026.	Are: (a) For defined benefit plans – the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits and, in a hybrid plan, the defined contribution obligation to participants; and (b) For defined contribution plans – the assets of a plan less liabilities other than the defined contribution obligations to participants.	49.9
net defined benefit liability (asset)	The deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.	39.8
net interest on the net defined benefit liability (asset)	The change during the period in the net defined benefit liability (asset) that arises from the passage of time.	39.8
net investment in a foreign operation	The amount of the reporting entity's interest in the net assets/equity of that operation.	4.10
net investment in the lease Applicable up to periods beginning on or before December 31, 2024.	The gross investment in the lease discounted at the interest rate implicit in the lease.	13.8
net investment in the lease Applicable for periods beginning on or after January 1, 2025.	The gross investment in the lease discounted at the interest rate implicit in the lease.	43.5
net realizable value	The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make	12.9

Term	Definition	Location
	the sale, exchange or distribution.	
non-cancelable lease Applicable up to periods beginning on or before December 31, 2024.	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.	13.8
non-cash-generating assets	Assets other than cash-generating assets.	21.14
non-controlling interest	The net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.	35.14
non-current asset Applicable for periods beginning on or after January 1, 2025.	An asset that does not meet the definition of a current asset.	44.9
non-exchange transactions Applicable up to periods beginning on or before December 31, 2025.	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.	9.11
non-exchange transactions Applicable for periods beginning on or after January 1, 2026.	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.	12.9
non-monetary items	Items that are not monetary items.	10.7
non-performance risk Applicable for periods beginning on or after January 1, 2025.	The risk that an entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the entity’s own credit risk.	46.6
notes	Contain information in addition to that presented in the statement of	1.7

Term	Definition	Location
	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.	
obligating event	An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.	19.18
observable inputs Applicable for periods beginning on or after January 1, 2025.	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.	46.6
onerous contract	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.	19.18
operating activities	The activities of the entity that are not investing or financing activities.	2.8
operating lease Applicable up to periods beginning on or before December 31, 2024.	A lease other than a finance lease.	13.8
operating lease Applicable for periods beginning on or after January 1, 2025.	A lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.	43.5
operation	An integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.	40.5
operator (in a service concession arrangement)	The entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.	32.8
optional lease payments Applicable for periods beginning on or after January 1, 2025.	Payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.	43.5
orderly transaction Applicable for periods beginning on or after January 1, 2025.	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).	46.6

Term	Definition	Location
original budget	The initial approved budget for the budget period.	24.7
other compulsory contributions and levies Applicable for periods beginning on or after January 1, 2026.	Cash or another asset, paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.	47.4
other long-term employee benefits	All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.	39.8
other price risk Applicable up to periods beginning on or before December 31, 2024.	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 factors affecting all similar financial instruments traded in the market.	30.8
other price risk Applicable for periods beginning on or after January 1, 2025.	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.	30.8
oversight	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.	20.4
owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services, or for administrative purposes.	16.7
owners	For the purposes of this Standard, is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.	40.5
participants Applicable for periods beginning on or after January 1, 2026.	The members of a retirement benefit plan and others who are entitled to benefits under the plan.	49.9
party to a joint arrangement	An entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.	37.7
past due	A financial asset is past due when a counterparty has failed to make a	41.9

Term	Definition	Location
	payment when that payment was contractually due.	
period of use Applicable for periods beginning on or after January 1, 2025.	The total period of time that an asset is used to fulfill a contract with a customer (including any non-consecutive periods of time).	43.5
plan assets	Comprise: (a) Assets held by a long-term employee benefit fund; and (b) Qualifying insurance policies.	39.8
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.	39.8
post-employment benefits	Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.	39.8
power	Consists of existing rights that give the current ability to direct the relevant activities of another entity.	35.14
present value of a defined benefit obligation	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	39.8
presentation currency	The currency in which the financial statements are presented.	4.10
principal market Applicable for periods beginning on or after January 1, 2025.	The market with the greatest volume and level of activity for the asset or liability.	46.6
probable Applicable for periods beginning on or after January 1, 2025.	Means more likely than not	44.9
prior period errors	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	3.7

Term	Definition	Location
	(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.	
property, plant, and equipment	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.	17.13
prospective application	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	3.7
protective rights	Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.	35.14
provision	A liability of uncertain timing or amount.	19.18
public sector combination	The bringing together of separate operations into one public sector entity.	40.5
public sector combination under common control	A public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.	40.5
purchased or originated credit-impaired financial asset	Credit-impaired on initial recognition.	41.9
purchaser Applicable for periods beginning on or after January 1, 2026.	A resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption.	47.4
puttable instrument	A financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put	28.9

Term	Definition	Location
	back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.	
qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.	5.5
qualifying insurance policy	An insurance policy[1] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy: (a) Can be used only to pay or fund employee benefits under a defined benefit plan; and (b) Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either: (i) The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.	39.8
reclassification date	The first day of the first reporting period following the change in management model that results in an entity reclassifying financial assets.	41.9
recoverable amount Applicable for periods beginning on or after January 1, 2025.	The higher of an asset's fair value less costs of disposal and its value in use.	44.9
recoverable amount (of an asset or a cash-generating unit) Applicable up to periods beginning on or before December 31, 2024.	The higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.	26.13
recoverable amount (of an asset or a cash-generating unit) Applicable for periods beginning on or after January 1, 2025.	The higher of an asset's or a cash-generating unit's fair value less costs of disposal and its value in use.	26.13
recoverable amount (of property, plant, and equipment)	The higher of a cash-generating asset's fair value less costs to sell and its value in use.	17.13

Term	Definition	Location
recoverable service amount	The higher of a non-cash-generating asset's fair value less costs to sell and its value in use.	21.14
regular way purchase or sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.	41.9
related party	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 7, *Investments in Associates*); (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.	20.4
related party transaction	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.	20.4
relevant rights	Activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.	35.14
remeasurements of the net defined benefit liability (asset)	Comprise: (a) Actuarial gains and losses; (b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).	39.8
removal rights	Rights to deprive the decision maker of its decision-making authority.	35.14

Term	Definition	Location
remuneration of key management personnel	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.	20.4
reporting date	The date of the last day of the reporting period to which the financial statements relate.	2.8
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.	31.16
residual value (of property, plant, and equipment or an intangible asset)	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.	17.13, 45.5
residual value guarantee Applicable for periods beginning on or after January 1, 2025.	A guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.	43.5
resource provider Applicable for periods beginning on or after January 1, 2026.	The party that provides a resource to the entity.	47.4
restrictions on transferred assets	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.	23.7
restructuring	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.	19.18
resulting entity	The entity that is the result of two or more operations combining in an amalgamation	40.5
retirement benefit obligations Applicable for periods beginning on or after January 1, 2026.	Are: (a) For defined benefit plans – the actuarial present value of promised retirement benefits; and (b) For defined contribution plans – the defined contribution obligations.	49.9

Term	Definition	Location
retirement benefit plans Applicable for periods beginning on or after January 1, 2026.	Arrangements whereby an employer/sponsor provides benefits for participants on or after termination of service as employee (either in the form of an annual income and/or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the employer's/sponsor's practices.	49.9
retrospective application	Applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.	3.7
retrospective restatement	Correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.	3.7
return on plan assets	The interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less: (a) Any costs of managing the plan assets; and (b) Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.	39.8
revenue	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.	1.7
revenue from a structured entity	Includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.	38.7
right-of-use asset Applicable for periods beginning on or after January 1, 2025.	An asset that represents a lessee's right to use an underlying asset for the lease term.	43.5
risk premium Applicable for periods beginning on or after January 1, 2025.	The compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.	46.6
segment	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)	18.9

Term	Definition	Location
	evaluating the entity's past performance in achieving its objectives and (b) making decisions about the future allocation of resources.	
segment accounting policies	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.	18.27
segment assets	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 include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8, *Interests in Joint Ventures.* Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.	18.27
segment expense	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	18.27

Term	Definition	Location
	(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. Segment expense includes a joint venturer's share of the expenses of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8. 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	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 include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8. 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.	18.27
segment revenue Applicable up to periods beginning on or before December 31, 2025.	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 sales to external customers 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.	18.27

Term	Definition	Location
	Segment revenue includes a joint venturer’s share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.	
segment revenue Applicable for periods beginning on or after January 1, 2026.	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: (c) 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 (d) 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. Segment revenue includes a joint venturer’s share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.	18.27
separate financial statements	Those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement* or using the equity method as described in IPSAS 36, *Investments in Associates and Joint Ventures*.	34.6
separate vehicle	A separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.	37.7
service concession arrangement	A binding arrangement between a grantor and an operator in which: (a) The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and (b) The operator is compensated for its services over the period of the service concession arrangement.	32.8
service concession asset	An asset used to provide public services in a service concession arrangement that:	32.8

Term	Definition	Location
	(a) Is provided by the operator which: (i) The operator constructs, develops, or acquires from a third party; or (ii) Is an existing asset of the operator; or (b) Is provided by the grantor which: (i) Is an existing asset of the grantor; or (ii) Is an upgrade to an existing asset of the grantor.	
service cost	Comprises: (a) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; (b) Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and (c) Any gain or loss on settlement.	39.8
settlement	A transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.	39.8
short-term employee benefits	Employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.	39.8
short-term lease Applicable for periods beginning on or after January 1, 2025.	A lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.	43.5
significant influence (relating to related party transactions)	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	20.4

Term	Definition	Location
	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 7.	
significant influence (relating to interests in other entities)	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.	36.8
social benefits	Are cash transfers provided to: (a) Specific individuals and/or households who meet eligibility criteria; (b) Mitigate the effect of social risks; and (c) Address the needs of society as a whole	42.5
social risks	Events or circumstances that: (a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and (b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.	42.5
spot exchange rate	The exchange rate for immediate delivery.	4.10
stand-alone consideration Applicable for periods beginning on or after January 1, 2026.	The amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.	48.6
stand-alone value (of a good or service) Applicable for periods beginning on or after January 1, 2026.	the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.	47.4
state plans	Plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.	39.8
stipulations on transferred assets	Terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.	23.7
structured entity	Is: (a) In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has	38.7

Term	Definition	Location
	control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or (b) In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.	
sublease Applicable for periods beginning on or after January 1, 2025.	A transaction for which an underlying asset is released by a lessee (‘intermediate lessor’) to a third party, and the lease (‘head lease’) between the head lessor and lessee remains in effect.	43.5
tax expenditures	Preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.	23.7, 47.4
taxable event	The event that the government, legislature, or other authority has determined will be subject to taxation.	23.7, 47.4
taxes Applicable up to periods beginning on or before December 31, 2025.	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.	23.7
taxes Applicable for periods beginning on or after January 1, 2026.	Economic benefits or service potential compulsorily paid or payable to the entity, 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 laws and/or regulations.	47.4
termination benefits	Employee benefits provided in exchange for the termination of an employee’s employment as a result of either: (a) An entity’s decision to terminate an employee’s employment before the normal retirement date; or (b) An employee’s decision to accept an offer of benefits in exchange for the termination of employment.	39.8
third-party beneficiary	An entity, household or individual who will benefit from a transaction made between other parties by receiving resources.	47.4

Term	Definition	Location
Applicable for periods beginning on or after January 1, 2026.		
transaction consideration Applicable for periods beginning on or after January 1, 2026.	For the purposes of this Standard, the amount of resources to which an entity expects to be entitled	47.4
transaction costs	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see [IPSAS 41] paragraph AG163). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.	41.9
transaction costs Applicable for periods beginning on or after January 1, 2025.	Incremental costs that are directly attributable to the acquisition, construction, development or disposal of an asset, or incurrence of a liability, and would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset, or incurred the liability.	46.6
transaction price Applicable for periods beginning on or after January 1, 2025.	The consideration given to acquire, construct or develop an asset or received to assume a liability.	46.6
transfer Applicable for periods beginning on or after January 1, 2026.	A transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.	47.4
transfer consideration Applicable for periods beginning on or after January 1, 2026.	For the purposes of this Standard, represents the total amount of resources which an entity expects to transfer.	48.6
transfer expense Applicable for periods beginning on or after January 1, 2026.	An expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return	48.6
transfer obligation Applicable for periods beginning on or after January 1, 2026.	An entity's obligation in a binding arrangement to transfer resources in a specified manner.	48.6
transfer obligation liability	The liability recognized for the existence of one or more transfer obligations arising from a binding arrangement.	48.6

Term	Definition	Location
Applicable for periods beginning on or after January 1, 2026.		
transfer provider Applicable for periods beginning on or after January 1, 2026.	An entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.	48.6
transfer recipient Applicable for periods beginning on or after January 1, 2026.	An entity that receives a good, service, or other asset from another entity without directly providing any good, service or other asset to that entity.	48.6
transfer right Applicable for periods beginning on or after January 1, 2026.	An entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.	48.6
transfer right asset Applicable for periods beginning on or after January 1, 2026.	The asset recognized for the existence of one or more transfer rights arising from a binding arrangement.	48.6
transfers Applicable for periods beginning on or after January 1, 2026.	Inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.	23.7
transport costs Applicable for periods beginning on or after January 1, 2025.	The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.	46.6
underlying asset Applicable for periods beginning on or after January 1, 2025.	An asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.	43.5
unearned finance revenue	The difference between: (a) The gross investment in the lease; and (b) The net investment in the lease.	13.8; 43.5
unguaranteed residual value	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	13.8

Term	Definition	Location
Applicable up to periods beginning on or before December 31, 2024.	to the lessor.	
unguaranteed residual value Applicable for periods beginning on or after January 1, 2025.	That portion of the residual value of the underlying asset, the realization of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.	43.5
unit of account Applicable for periods beginning on or after January 1, 2025.	The level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.	46.6
unobservable inputs Applicable for periods beginning on or after January 1, 2025.	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.	46.6
useful life (of a lease) Applicable up to periods beginning on or before December 31, 2024.	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.	13.8
useful life (of a non-cash-generating asset)	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.	21.14
useful life (of property, plant, and equipment or an intangible asset)	Either: (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.	17.13
value in use of a cash-generating asset	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	26.13
value in use of a non-cash-generating asset	The present value of the asset’s remaining service potential.	21.14

Term	Definition	Location
variable lease payments Applicable for periods beginning on or after January 1, 2025.	The portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.	43.5
vested benefits Applicable for periods beginning on or after January 1, 2026.	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.	49.9

Accrual IPSAS Standards Issued as at January 31, 2024

Table A: List of IPSAS Standards effective as at January 1, 2024

The 2024 Handbook includes all IPSAS Standards. IPSAS Standards show the latest amended text. Where an IPSAS Standard includes paragraphs that are not yet effective these paragraphs are listed.

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 1—Presentation of Financial Statements (revised)	December 2006	January 1, 2008	7	Amended	IPSAS 45	2022
			50	Amended	IPSAS 47	2022
			88	Amended	IPSAS 44 IPSAS 47	2022
			92	Amended	IPSAS 45	2022
			94	Amended	IPSAS 45 IPSAS 47	2022
			101	Amended	IPSAS 45	2022
			102	Amended	IPSAS 44	2022
			107	Amended	IPSAS 44	2022
			125C	Amended	IPSAS 45	2022
			133	Amended	IPSAS 46	2022
			134	Amended	IPSAS 45 IPSAS 46	2022 2022
			135	Amended	IPSAS 47	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			141	Amended	IPSAS 46	2022
			143	Amended	IPSAS 46	2022
			148	Amended	IPSAS 45	2022
			153N	New	IPSAS 44	
			153O	New	IPSAS 45	
			153P	New	IPSAS 46	
			153Q	New	IPSAS 47	
IPSAS 2—Cash Flow Statements	May 2000	July 1, 2001	21	Amended	IPSAS 47	2022
			22	Amended	IPSAS 44 IPSAS 45 IPSAS 47	2022 2022
			26	Amended	IPSAS 43	2021
			55	Amended	IPSAS 43	2021
			63H	New	IPSAS 43	
			63I	New	IPSAS 44	
			63J	New	IPSAS 45	
			63K	New	IPSAS 47	
			IE	Amended	IPSAS 47	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 3—Accounting Policies, Changes in Accounting Estimates and Errors (revised)	December 2006	January 1, 2008	22	Amended	IPSAS 45	2022
			57	Amended	IPSAS 46	2022
			59E	New	IPSAS 45	
			59F	New	IPSAS 46	
			IG14	Amended	IPSAS 45	2022
			IG15	Amended	IPSAS 45	2022
			IG16	Amended	IPSAS 45	2022
			IG17	Amended	IPSAS 45	2022
IPSAS 4—The Effects of Changes in Foreign Exchange Rates (revised)	April 2008	January 1, 2010	11	Amended	IPSAS 47	2022
			17	Amended	IPSAS 43 IPSAS 48	2021 2022
			27	Amended	IPSAS 46	2022
			28	Amended	IPSAS 45	2022
			36	Amended	IPSAS 45	2022
			71F	New	IPSAS 43	
			71G	New	IPSAS 45	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			71H	New	IPSAS 46	
			71I	New	IPSAS 47	
			71J	New	IPSAS 48	
			A5	Amended	IPSAS 46	2022
			IE4	Amended	IPSAS 47	2022
			IE7	Amended	IPSAS 47	2022
IPSAS 5—Borrowing Costs	May 2000	July 1, 2001	6	Amended	IPSAS 43	2021
			26	Amended	IPSAS 47	2022
			42F	New	IPSAS 43	
			42G	New	IPSAS 47	
IPSAS 9—Revenue from Exchange Transactions	July 2001	July 1, 2002	10	Amended	IPSAS 45	2022
			11	Amended	IPSAS 46	2022 2022
			41E	New	IPSAS 45	
			41F	New	IPSAS 46	
IPSAS 10—Financial Reporting in Hyper-inflationary Economies	July 2001	July 1, 2002	31	Amended	IPSAS 46	2022
			38G	New	IPSAS 46	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 11—Construction Contracts	July 2001	July 1, 2002				
IPSAS 12—Inventories (revised)	December 2006	January 1, 2008	2	Amended	IPSAS 47	2022
			9	Amended	IPSAS 47	2022
			10	Amended	IPSAS 46	2022
			11	Amended	IPSAS 47 IPSAS 48	2022 2022
			12	Amended	IPSAS 45	2022
			14A	Amended	IPSAS 45	2022
			17	Amended	IPSAS 48	2022
			20	Amended	IPSAS 43	2021
			28	Deleted	IPSAS 47	2022
			39	Amended	IPSAS 47	2022
			43	Amended	IPSAS 48	2022
			44	Amended	IPSAS 48	2022
			47	Amended	IPSAS 46	2022
			48	Amended	IPSAS 47	2022
			50A	New	IPSAS 46	
			50B	New	IPSAS 46	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			50C	New	IPSAS 46	
			50D	New	IPSAS 46	
			50E	New	IPSAS 46	
			50F	New	IPSAS 46	
			51F	New	IPSAS 43	
			51G	New	IPSAS 45	
			51H	New	IPSAS 46	
			51L	New	IPSAS 47	
			51J	New	IPSAS 48	
IPSAS 13—Leases (revised)	December 2006	January 1, 2008				
IPSAS 14—Events After the Reporting Date (revised)	December 2006	January 1, 2008	16	Amended	IPSAS 44	2022
			31	Amended	IPSAS 44	2022
			32G	New	IPSAS 44	
IPSAS 16—Investment Property (revised)	December 2006	January 1, 2008	5	Deleted	IPSAS 43	2021
			6	Amended	IPSAS 45	2022
			7	Amended	IPSAS 43	2021
			8	Deleted	IPSAS 43	2021

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			10	Amended	IPSAS 43 IPSAS 45	2021 2022
			12	Amended	IPSAS 43	2021
			13	Amended	IPSAS 43 IPSAS 45 IPSAS 47	2021 2022 2022
			19	Amended	IPSAS 45	2022
			20	Amended	IPSAS 43	2021
			25A	New	IPSAS 43	
			26	Amended	IPSAS 43	2021
			27	Amended	IPSAS 43	2021
			33	Amended	IPSAS 45 IPSAS 46	2022
			34	Deleted	IPSAS 43	2021
			35	Deleted	IPSAS 43	2021
			38	Amended	IPSAS 46	2022
			38A	New	IPSAS 43	
			39	Amended	IPSAS 43 IPSAS 45 IPSAS 46	2021 2022 2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			40	Amended	IPSAS 45 IPSAS 46	2022 2022
			41	Amended	IPSAS 45 IPSAS 46	2022 2022
			41A	New Amended	IPSAS 43 IPSAS 46	 2022
			41B	New	IPSAS 43	
			41C	New Amended	IPSAS 43 IPSAS 46	 2022
			42	Amended	IPSAS 46	2022
			43	Deleted	IPSAS 43	2021
			45	Deleted	IPSAS 46	2022
			46	Deleted	IPSAS 46	2022
			47	Deleted	IPSAS 46	2022
			48	Deleted	IPSAS 46	2022
			49	Amended	IPSAS 43 IPSAS 46	2021 2022
			49A	New Amended	IPSAS 43 IPSAS 46	 2022
			50	Amended	IPSAS 43	2021

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
					IPSAS 46	2022
			51	Deleted	IPSAS 46	2022
			52	Deleted	IPSAS 46	2022
			53	Deleted	IPSAS 46	2022
			54	Deleted	IPSAS 46	2022
			55	Deleted	IPSAS 46	2022
			56	Deleted	IPSAS 46	2022
			57	Amended	IPSAS 46	2022
			58	Deleted	IPSAS 46	2022
			59	Amended	IPSAS 43 IPSAS 46	2021 2022
			60	Deleted	IPSAS 46	2022
			62	Amended	IPSAS 43 IPSAS 45 IPSAS 46	2021 2022 2022
			62A	Amended	IPSAS 43 IPSAS 45 IPSAS 46	2021 2022 2022
			62B	Amended	IPSAS 46	2022
			63	Amended	IPSAS 43	2021

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
					IPSAS 45 IPSAS 46	2022 2022
			65	Amended	IPSAS 43 IPSAS 44 IPSAS 45 IPSAS 46	2021 2022 2022 2022
			70	Amended	IPSAS 45 IPSAS 46	2022
			71	Amended Amended	IPSAS 43 IPSAS 45	2021 2022
			72	Amended Amended	IPSAS 43 IPSAS 45	2021 2022
			73	Amended Amended	IPSAS 43 IPSAS 45	2021 2022
			78	Amended Amended	IPSAS 43 IPSAS 47	2021 2022
			79	Amended Amended	IPSAS 45 IPSAS 46	2022
			80	Amended	IPSAS 43	2021
			81	Amended	IPSAS 47	2022
			85	Amended	IPSAS 43	2021

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			86	Amended Amended Amended	IPSAS 43 IPSAS 45 IPSAS 46	2021 2022 2022
			86(d)	Deleted	IPSAS 46	2022
			87	Amended	IPSAS 44 IPSAS 46	2022
			88	Amended	IPSAS 43	2021
			89	Amended Amended Amended	IPSAS 43 IPSAS 45 IPSAS 46	2021 2022 2022
			89A	New	IPSAS 46	
			89B	New	IPSAS 46	
			89C	New	IPSAS 46	
			89D	New	IPSAS 46	
			89E	New	IPSAS 46	
			89F	New	IPSAS 46	
			90	Amended	IPSAS 44 IPSAS 45 IPSAS 46	2022
			97	Amended	IPSAS 46	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			100A	New	IPSAS 43	
			101H	New	IPSAS 43	
			101I	New	IPSAS 44	
			101J	New	IPSAS 45	
			101K	New	IPSAS 46	
			101L	New	IPSAS 47	
IPSAS 17—Property, Plant, and Equipment (revised)	December 2006	January 1, 2008	6	Amended	IPSAS 44	2022
			7	Deleted	IPSAS 43	2021
			8	Amended	IPSAS 43	2021
			19	Amended	IPSAS 43	2021
			41	Deleted	IPSAS 43	2021
			60	Amended	IPSAS 43	2021
			71	Amended	IPSAS 44	2022
			83	Amended	IPSAS 43	2021
			83A	Amended	IPSAS 44 IPSAS 47	2022
			84	Amended	IPSAS 43 IPSAS 47	2021 2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			87	Amended	IPSAS 47	2022
			88	Amended	IPSAS 44	2022
			94	Amended	IPSAS 44	2022
			107R	New	IPSAS 43	
			107T	New	IPSAS 47	
IPSAS 18—Segment Reporting	June 2002	July 1,2003	27	Amended	IPSAS 47	2022
			33	Amended	IPSAS 43	2021
			35	Amended	IPSAS 43	2021
			37	Amended	IPSAS 45	2022
			39	Amended	IPSAS 47	2022
			76F	New	IPSAS 43	
			76G	New	IPSAS 45	
			76H	New	IPSAS 47	
IPSAS 19—Provisions, Contingent Liabilities and Contingent Assets	October 2002	January 1, 2004	6	Amended	IPSAS 44	2022
			13	Amended	IPSAS 43 IPSAS 47	2021 2022
			15	Amended	IPSAS 47	2022
			27	Amended	IPSAS 45	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			107	Amended	IPSAS 47	2022
			111L	New	IPSAS 43	
			111M	New	IPSAS 44	
			111N	New	IPSAS 45	
			111O	New	IPSAS 47	
			IG13	Deleted	IPSAS 43	2021
			IG16	Amended	IPSAS 45	2022
IPSAS 20—Related Party Disclosures	October 2002	January 1, 2004				
IPSAS 21—Impairment of Non-Cash-Generating Assets	December 2004	January 1, 2006	2	Amended	IPSAS 44 IPSAS 46 IPSAS 47	2022
			8	Amended	IPSAS 44 IPSAS 47	2022
			10	Amended	IPSAS 46	2022
			10A	New	IPSAS 46	
			12	Amended	IPSAS 45	2022
			27	Amended	IPSAS 44	2022
			29	Amended	IPSAS 46	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			54	Amended	IPSAS 45	2022
			54A	Amended	IPSAS 45	2022
			69	Amended	IPSAS 45	2022
			69A	Amended	IPSAS 45	2022
			75	Amended	IPSAS 45	2022
			82K	New	IPSAS 44	
			82L	New	IPSAS 45	
			82M	New	IPSAS 46	
			82N	New	IPSAS 47	
IPSAS 22—Disclosure of Information About the General Government Sector	December 2006	January 1, 2008	32	Amended	IPSAS 46	2022
			47G	New	IPSAS 46	
IPSAS 23—Revenue from Non-Exchange Transactions (Taxes and Transfers)	December 2006	June 30, 2008	13	Amended	IPSAS 45	2022
			42	Amended	IPSAS 45 IPSAS 46	2022
			43	Amended	IPSAS 45	2022
			43A	New	IPSAS 45	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			83	Amended	IPSAS 45	2022
			97	Amended	IPSAS 45	2022
			124H	New	IPSAS 45	2022
			124I	New	IPSAS 46	2022
			IG23	Amended	IPSAS 45	2022
			IG58	Amended	IPSAS 45	2022
IPSAS 24—Presentation of Budget Information in Financial Statements	December 2006	January 1, 2009				
IPSAS 26 — Impairment of Cash-Generating Assets	February 2008	April 1, 2009	2	Amended	IPSAS 44 IPSAS 47	2022
			8	Amended	IPSAS 44 IPSAS 46 IPSAS 47	2022
			10	Amended	IPSAS 46	2022
			10A	New	IPSAS 46	
			13	Amended	IPSAS 46	2022
			25	Amended	IPSAS 44	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
					IPSAS 46	
			29	Amended	IPSAS 47	2022
			31	Amended	IPSAS 46	2022
			32	Amended	IPSAS 46	2022
			33	Amended	IPSAS 46	2022
			34	Amended	IPSAS 46	2022
			35	Amended	IPSAS 46	2022
			36	Amended	IPSAS 46	2022
			38	Deleted	IPSAS 46	2022
			39	Deleted	IPSAS 46	2022
			40	Deleted	IPSAS 46	2022
			41	Amended	IPSAS 46	2022
			42	Amended	IPSAS 46	2022
			66	Amended	IPSAS 46	2022
			66A	New	IPSAS 46	
			73	Amended	IPSAS 45	2022
			73A	Amended	IPSAS 45	2022
			78	Amended	IPSAS 46	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			85	Amended	IPSAS 46	2022
			87	Amended	IPSAS 46	2022
			89	Amended	IPSAS 46	2022
			92	Amended	IPSAS 46	2022
			94	Amended	IPSAS 46	2022
			100	Amended	IPSAS 46	2022
			104	Amended	IPSAS 46	2022
			108	Amended	IPSAS 45	2022
			108A	Amended	IPSAS 45	2022
			118	Amended	IPSAS 45	2022
			120	Amended	IPSAS 46	2022
			123	Amended	IPSAS 46	2022
			126M	New	IPSAS 44	
			126N	New	IPSAS 45	
			126O	New	IPSAS 46	
			126P	New	IPSAS 47	
			IG13	Amended	IPSAS 46	2022
			IG24	Amended	IPSAS 46	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			IG25	Amended	IPSAS 46	2022
			IG27	Amended	IPSAS 46	2022
			IG29	Amended	IPSAS 46	2022
IPSAS 27—Agriculture	December 2009	April 1, 2011	3	Amended	IPSAS 43 IPSAS 45	2021 2022
			4	Amended	IPSAS 45	2022
			6	Amended	IPSAS 45	2022
			14	Deleted	IPSAS 46	2022
			19	Amended	IPSAS 46	2022
			20	Amended	IPSAS 46	2022
			21	Deleted	IPSAS 46	2022
			22	Deleted	IPSAS 46	2022
			23	Deleted	IPSAS 46	2022
			24	Deleted	IPSAS 46	2022
			25	Deleted	IPSAS 46	2022
			26	Amended	IPSAS 46	2022
			27	Deleted	IPSAS 46	2022
			29	Amended	IPSAS 46	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			34	Amended	IPSAS 44 IPSAS 46	2022
			37	Amended	IPSAS 45	2022
			45	Deleted	IPSAS 46	2022
			46	Deleted	IPSAS 46	2022
			46A	New	IPSAS 46	
			46B	New	IPSAS 46	
			46C	New	IPSAS 46	
			46D	New	IPSAS 46	
			46E	New	IPSAS 46	
			46F	New	IPSAS 46	
			48	Amended	IPSAS 44	2022
			56G	New	IPSAS 43	2021
			56H	New	IPSAS 44	2022
			56I	New	IPSAS 45	2022
			56J	New	IPSAS 46	2022
IPSAS 28—Financial Instruments: Presentation	January 2010	January 1, 2013	60H	New	IPSAS 43	
			60I	New	IPSAS 46	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			60J	New	IPSAS 47	
			AG16	Amended	IPSAS 43	2021
			AG17	Amended	IPSAS 43	2021
			AG21	Amended	IPSAS 47	2022
			AG46	Amended	IPSAS 47	2022
			AG56	Amended	IPSAS 46	2022
IPSAS 29—Financial Instruments: Recognition and Measurement	January 2010	January 1, 2013	125A	Amended	IPSAS 43	2021
IPSAS 30—Financial Instruments: Disclosures	January 2010	January 1, 2013	5A	Amended	IPSAS 47	2022
			8	Amended	IPSAS 46	2022
			30A	New	IPSAS 46	
			30B	New	IPSAS 46	
			30C	New	IPSAS 46	
			30D	New	IPSAS 46	
			30E	New	IPSAS 46	
			30F	New	IPSAS 46	
			30G	New	IPSAS 46	
			30H	New	IPSAS 46	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			30I	New	IPSAS 46	
			31	Deleted	IPSAS 46	2022
			32	Deleted	IPSAS 46	2022
			33	Deleted	IPSAS 46	2022
			34	Amended	IPSAS 46	2022
			35	Amended	IPSAS 43	2021
			42A	Amended	IPSAS 47	2022
			42H	Amended	IPSAS 47	2022
			42M	Amended	IPSAS 47	2022
			42N	Amended	IPSAS 47	2022
			52L	New	IPSAS 43	
			52M	New	IPSAS 46	
			52N	New	IPSAS 47	
			IG15	Amended	IPSAS 46	2022
			IG16	Amended	IPSAS 46	2022
IPSAS 31—Intangible Assets	January 2010	April 1, 2011	3	Amended	IPSAS 45	2022
			6	Amended	IPSAS 43 IPSAS 44 IPSAS 47	2021 2022 2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			7	Amended	IPSAS 45	2022
			9	Amended	IPSAS 43	2021
			11	Deleted	IPSAS 45	2022
			15	Amended	IPSAS 45	2022
			26	Amended	IPSAS 47	2022
			45	Amended	IPSAS 46	2022
			48	Amended	IPSAS 46	2022
			67	Amended	IPSAS 45	2022
			71	Amended	IPSAS 46	2022
			74	Amended	IPSAS 46	2022
			75	Amended	IPSAS 46	2022
			76	Amended	IPSAS 46	2022
			81	Amended	IPSAS 46	2022
			83	Amended	IPSAS 46	2022
			96	Amended	IPSAS 44	2022
			99	Amended	IPSAS 46	2022
			112	Amended	IPSAS 43	2021
			113	Amended	IPSAS 43 IPSAS 47	2021 2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			115	Amended	IPSAS 47	2022
			116	Amended	IPSAS 44	2022
			117	Amended	IPSAS 44	2022
			121	Amended	IPSAS 46	2022
			123	Amended	IPSAS 46	2022
			123A	New	IPSAS 46	
			123B	New	IPSAS 46	
			123C	New	IPSAS 46	
			123D	New	IPSAS 46	
			123E	New	IPSAS 46	
			123F	New	IPSAS 46	
			124	Amended	IPSAS 46	2022
			132K	New	IPSAS 43	
			132L	New	IPSAS 44	
			132M	New	IPSAS 45	
			132N	New	IPSAS 46	
			132O	New	IPSAS 47	
			AG5	Amended	IPSAS 45	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG6	Amended	IPSAS 43 IPSAS 47	2021 2022
			AG12	New	IPSAS 45	
			AG13	New	IPSAS 45	
			AG14	New	IPSAS 45	
			IE22	Amended	IPSAS 45	2022
IPSAS 32—Service Concession Arrangements: Grantor	October 2011	January 1, 2014	12	Amended	IPSAS 45	2022
			13	Amended	IPSAS 45	2022
			30	Amended	IPSAS 47	2022
			33	Amended	IPSAS 45	2022
			36E	New	IPSAS 43	
			36F	New	IPSAS 45	
			36G	New	IPSAS 47	
			AG11	Amended	IPSAS 45	2022
			AG16	Amended	IPSAS 45	2022
			AG17	Amended	IPSAS 45	2022
			AG20	Amended	IPSAS 45	2022
			AG23	Amended	IPSAS 45	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG24	Amended	IPSAS 45	2022
			AG25	Amended	IPSAS 45	2022
			AG30	Amended	IPSAS 45	2022
			AG33	Amended	IPSAS 45	2022
			AG35	Amended	IPSAS 45	2022
			AG48	Amended	IPSAS 45	2022
			AG49	Amended	IPSAS 45	2022
			AG50	Amended	IPSAS 45	2022
			AG56	Amended	IPSAS 47	2022
			AG64	Amended	IPSAS 47	2022
			IG2	Amended	IPSAS 43 IPSAS 45 IPSAS 47	2021 2022 2022
			IG4	Amended	IPSAS 43 IPSAS 45 IPSAS 47	2021 2022 2022
			IE6	Amended	IPSAS 45	2022
			IE8	Amended	IPSAS 45	2022
			IE15	Amended	IPSAS 45	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			IE17	Amended	IPSAS 45	2022
			IE22	Amended	IPSAS 45	2022
			IE30	Amended	IPSAS 45	2022
			IE39	Amended	IPSAS 45	2022
IPSAS 33—First-time Adoption of Accrual Basis IPSAS	January 2015	January 1, 2017	9	Amended	IPSAS 46	2022
			32	Amended	IPSAS 47	2022
			36	Amended Amended	IPSAS 43 IPSAS 45	2021 2022
			41	Amended	IPSAS 47	2022
			41A	New	IPSAS 46	
			41B	New	IPSAS 48	
			42	Amended	IPSAS 47	2022
			43	Amended	IPSAS 47	2022
			43A	New	IPSAS 48	
			43B	New	IPSAS 48	
			46	Amended	IPSAS 43	2021
			47	Amended	IPSAS 43	2021
			48	Amended	IPSAS 45	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			49	Amended	IPSAS 45	2022
			64	Amended	IPSAS 43 IPSAS 45 IPSAS 46	2021 2022 2022
			64A	New	IPSAS 46	
			65	Amended	IPSAS 46	2022
			66	Amended	IPSAS 45 IPSAS 46	2022 2022
			67	Amended	IPSAS 45 IPSAS 46	2022 2022
			68	Amended	IPSAS 45 IPSAS 46	2022 2022
			69	Amended	IPSAS 45 IPSAS 46	2022 2022
			70	Amended	IPSAS 46	2022
			71	Amended	IPSAS 46	2022
			72	Amended	IPSAS 46	2022
			95	Amended	IPSAS 43	2021
			96	Deleted	IPSAS 43	2021
			96A	New	IPSAS 43	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			96B	New Amended	IPSAS 43 IPSAS 46	2022
			96C	New	IPSAS 43	
			96D	New	IPSAS 43	
			129	Amended	IPSAS 45	2022
			131A	New	IPSAS 44	
			148	Amended	IPSAS 43 IPSAS 46	2021 2022
			152A	New	IPSAS 46	
			152B	New	IPSAS 46	
			152C	New	IPSAS 46	
			152D	New	IPSAS 46	
			152E	New	IPSAS 46	
			152F	New	IPSAS 46	
			154J	New	IPSAS 43	
			154K	New	IPSAS 44	
			154L	New	IPSAS 45	
			154M	New	IPSAS 46	
			154N	New	IPSAS 47	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			154O	New	IPSAS 48	
			IG14	Amended	IPSAS 45	2022
			IG20	Amended	IPSAS 43	2021
			IG21	Amended	IPSAS 43	2021
			IG22	Amended	IPSAS 45	2022
			IG23	Amended	IPSAS 45	2022
			IG42	Amended	IPSAS 46	2022
			IG45	Amended	IPSAS 47	2022
			IG51	Amended	IPSAS 43	2021
			IG52	Amended	IPSAS 43	2021
			IG53	Amended	IPSAS 45	2022
			IG54	Amended	IPSAS 45	2022
			IG55	Amended	IPSAS 45	2022
			IG56	Amended	IPSAS 45	2022
			IG57	Amended	IPSAS 45	2022
			IG58	Amended	IPSAS 45	2022
			IG89A	New	IPSAS 48	
			IG91	Amended	IPSAS 43	2021

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
					IPSAS 45 IPSAS 47 IPSAS 48	2022 2022 2022
			Appendix	Amended	IPSAS 45 IPSAS 47	2022
IPSAS 34—Separate Financial Statements	January 2015	January 1, 2017	12	Amended	IPSAS 44	2022
			23A	New	IPSAS 46	
			23B	New	IPSAS 46	
			23C	New	IPSAS 46	
			23D	New	IPSAS 46	
			23E	New	IPSAS 46	
			23F	New	IPSAS 46	
			23G	New	IPSAS 46	
			23H	New	IPSAS 46	
			32D	New	IPSAS 44	
			32E	New	IPSAS 46	
IPSAS 35—Consolidated Financial Statements	January 2015	January 1, 2017	79F	New	IPSAS 47	
			AG13	Amended	IPSAS 47	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 36—Investments in Associates and Joint Ventures	January 2015	January 1, 2017	21	Amended	IPSAS 44	2022
			25A	New	IPSAS 44	
			25B	New	IPSAS 44	
			33	Amended	IPSAS 45	2022
			51J	New	IPSAS 44	
			51K	New	IPSAS 45	
IPSAS 37—Joint Arrangements	January 2015	January 1, 2017				
IPSAS 38—Disclosures in Interests in Other Entities	January 2015	January 1, 2017	3A	New	IPSAS 44	
			57A	New	IPSAS 46	
			57B	New	IPSAS 46	
			57C	New	IPSAS 46	
			57D	New	IPSAS 46	
			57E	New	IPSAS 46	
			57F	New	IPSAS 46	
			61D	New	IPSAS 44	
			61E	New	IPSAS 46	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG12	Amended	IPSAS 44	
			AG16	Amended	IPSAS 44	
			AG16A	New	IPSAS 44	
IPSAS 39—Employee Benefits	July 2016	January 1, 2018	3	Amended	IPSAS 49	2022
			8	Amended	IPSAS 46	2022
			11	Amended	IPSAS 45	2022
			53	Amended	IPSAS 45	2022
			123	Amended	IPSAS 45	2022
			144	Amended	IPSAS 46	2022
			176C	New	IPSAS 45	
			176D	New	IPSAS 46	
			176E	New	IPSAS 49	
IPSAS 40—Public Sector Combinations	January 2017	January 1, 2019	34	Amended	IPSAS 47	2022
			68	Amended	IPSAS 43	2021
			71	Amended	IPSAS 43	2021
			72	Amended	IPSAS 46	2022
			79	Amended	IPSAS 47	2022
			82B	New	IPSAS 43	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			84A	New Amended	IPSAS 43 IPSAS 44	2022
			115	Amended	IPSAS 47	2022
			120	Amended	IPSAS 43	2021
			124	Amended	IPSAS 44	2022
			126E	New	IPSAS 43	
			126F	New	IPSAS 44	
			126G	New	IPSAS 46	
			126H	New	IPSAS 47	
			AG58	Amended	IPSAS 47	2022
			AG72	Deleted	IPSAS 43	2021
			AG73	Deleted	IPSAS 43	2021
			AG74	Deleted	IPSAS 43	2021
			AG76	Amended	IPSAS 43	2021
			AG86	Amended	IPSAS 47	2022
			AG89	Amended	IPSAS 43	2021
			IE163	Amended	IPSAS 47	2022
			IE164	Amended	IPSAS 47 IPSAS 48	2022 2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			IE165	Amended	IPSAS 48	2022
			IE167	Amended	IPSAS 45 IPSAS 46	2022 2022
			IE168	Amended	IPSAS 45 IPSAS 46	2022
			IE169	Amended	IPSAS 45	2022
			IE170	Amended	IPSAS 45	2022
			IE171	Amended	IPSAS 45	2022
			IE176	Amended	IPSAS 47	2022
			IE180	Amended	IPSAS 45 IPSAS 46	2022 2022
			IE185	Amended	IPSAS 45 IPSAS 46	2022 2022
			IE192	Amended	IPSAS 45 IPSAS 46 IPSAS 47	2022 2022 2022
			IE224	Amended	IPSAS 43	2021
			IE250	Amended	IPSAS 47	2022
			IE263	Amended	IPSAS 47	2022
			IE264	Amended	IPSAS 47	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
					IPSAS 48	2022
			IE265	Amended	IPSAS 48	2022
			IE266	Deleted	IPSAS 48	2022
			IE278	Amended	IPSAS 46	2022
IPSAS 41—Financial Instruments	August 2018	January 1, 2023	2	Amended	IPSAS 43 IPSAS 47	2021 2022
			3	Amended	IPSAS 47	2022
			9	Amended	IPSAS 46	2022
			37	Amended	IPSAS 47	2022
			45	Amended	IPSAS 47	2022
			60	Amended	IPSAS 47	2022
			66	Amended	IPSAS 46	2022
			67	Deleted	IPSAS 46	2022
			68	Deleted	IPSAS 46	2022
			87	Amended	IPSAS 43 IPSAS 47	2021 2022
			156E	New	IPSAS 43	
			156F	New	IPSAS 46	
			156G	New	IPSAS 47	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			156H	New	IPSAS 49	
			AG2	Amended	IPSAS 47 IPSAS 49	2022 2022
			AG5	Amended	IPSAS 47	2022
			AG6	Amended	IPSAS 47	2022
			AG31	Amended	IPSAS 46	2022
			AG33	Amended	IPSAS 47	2022
			AG34	Amended	IPSAS 47	2022
			AG38	Amended	IPSAS 46	2022
			AG43	Amended	IPSAS 47	2022
			AG44	Amended	IPSAS 47	2022
			AG114	Amended	IPSAS 47	2022
			AG115	Amended	IPSAS 46	2022
			AG117	Amended	IPSAS 46	2022
			AG124	Amended	IPSAS 47	2022
			AG125	Amended	IPSAS 47	2022
			AG129	Amended	IPSAS 47	2022
			AG132	Amended	IPSAS 47	2022
			AG133	Amended	IPSAS 47	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG143A	New	IPSAS 46	
			AG143B	New	IPSAS 46	
			AG143C	New	IPSAS 46	
			AG143D	New	IPSAS 46	
			AG143E	New	IPSAS 46	
			AG143F	New	IPSAS 46	
			AG143G	New	IPSAS 46	
			AG143H	New	IPSAS 46	
			AG143I	New	IPSAS 46	
			AG143J	New	IPSAS 46	
			AG143K	New	IPSAS 46	
			AG143L	New	IPSAS 46	
			AG143M	New	IPSAS 46	
			AG143N	New	IPSAS 46	
			AG143O	New	IPSAS 46	
			AG143P	New	IPSAS 46	
			AG143Q	New	IPSAS 46	
			AG143R	New	IPSAS 46	

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG143S	New	IPSAS 46	
			AG143T	New	IPSAS 46	
			AG143U	New	IPSAS 46	
			AG143V	New	IPSAS 46	
			AG143W	New	IPSAS 46	
			AG143X	New	IPSAS 46	
			AG143Y	New	IPSAS 46	
			AG143Z	New	IPSAS 46	
			AG143AA	New	IPSAS 46	
			AG143AB	New	IPSAS 46	
			AG144	Deleted	IPSAS 46	2022
			AG145	Deleted	IPSAS 46	2022
			AG146	Deleted	IPSAS 46	2022
			AG147	Deleted	IPSAS 46	2022
			AG148	Deleted	IPSAS 46	2022
			AG149	Deleted	IPSAS 46	2022
			AG150	Deleted	IPSAS 46	2022
			AG151	Deleted	IPSAS 46	2022

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG152	Deleted	IPSAS 46	2022
			AG153	Deleted	IPSAS 46	2022
			AG154	Deleted	IPSAS 46	2022
			AG155	Deleted	IPSAS 46	2022
			AG158	Amended	IPSAS 47	2022
			AG198	Amended	IPSAS 43	2022
			AG210	Amended	IPSAS 43	2022
			IE154	Amended	IPSAS 47	2022
			IE155	Amended	IPSAS 47	2022
			G.1	Amended	IPSAS 47	2022
IPSAS 42—Social Benefits	January 2019	January 1, 2023	12	Amended	IPSAS 46	2022
			35B	New	IPSAS 46	
			AG17	Amended	IPSAS 46	2022
			IG2	Amended	IPSAS 48	2022

Table B: List of IPSAS not yet Effective as at January 1, 2024

IPSAS	Issued	Original Effective Date On or After	Other IPSAS Affected
IPSAS 43—Leases	January 2022	January 1, 2025	IPSAS 2 IPSAS 4 IPSAS 5 IPSAS 12 IPSAS 16 IPSAS 17 IPSAS 18 IPSAS 19 IPSAS 27 IPSAS 28 IPSAS 30 IPSAS 31 IPSAS 32 IPSAS 33 IPSAS 40 IPSAS 41
IPSAS 44—Non-current Assets Held for Sale and Discontinued Operations	May 2022	January 1, 2025	IPSAS 1 IPSAS 2 IPSAS 14 IPSAS 16 IPSAS 17 IPSAS 19 IPSAS 21 IPSAS 26

IPSAS	Issued	Original Effective Date On or After	Other IPSAS Affected
			IPSAS 27 IPSAS 31 IPSAS 33 IPSAS 34 IPSAS 35 IPSAS 36 IPSAS 38 IPSAS 40 IPSAS 43
IPSAS 45—Property, Plant, and Equipment	May 2023	January 1, 2025	IPSAS 1 IPSAS 2 IPSAS 3 IPSAS 4 IPSAS 9 IPSAS 12 IPSAS 16 IPSAS 18 IPSAS 19 IPSAS 21 IPSAS 23 IPSAS 26 IPSAS 27 IPSAS 31 IPSAS 32 IPSAS 33 IPSAS 36

IPSAS	Issued	Original Effective Date On or After	Other IPSAS Affected
			IPSAS 39 IPSAS 40 IPSAS 41 IPSAS 43 IPSAS 44
IPSAS 46—Measurement	May 2023	January 1, 2025	IPSAS 1 IPSAS 3 IPSAS 4 IPSAS 9 IPSAS 10 IPSAS 12 IPSAS 16 IPSAS 18 IPSAS 19 IPSAS 21 IPSAS 22 IPSAS 23 IPSAS 26 IPSAS 27 IPSAS 28 IPSAS 30 IPSAS 31 IPSAS 32 IPSAS 33 IPSAS 34 IPSAS 36 IPSAS 38

IPSAS	Issued	Original Effective Date On or After	Other IPSAS Affected
			IPSAS 39 IPSAS 40 IPSAS 41 IPSAS 42 IPSAS 43
IPSAS 47—Revenue	May 2023	January 1, 2026	IPSAS 1 IPSAS 2 IPSAS 4 IPSAS 5 IPSAS 9 IPSAS 12 IPSAS 16 IPSAS 17 IPSAS 18 IPSAS 19 IPSAS 21 IPSAS 24 IPSAS 26 IPSAS 27 IPSAS 28 IPSAS 29 IPSAS 30 IPSAS 31 IPSAS 32 IPSAS 33 IPSAS 35

IPSAS	Issued	Original Effective Date On or After	Other IPSAS Affected
			IPSAS 40 IPSAS 41 IPSAS 43 IPSAS 44 IPSAS 45
IPSAS 48—Transfer Expenses	May 2023	January 1, 2026	IPSAS 4 IPSAS 12 IPSAS 33 IPSAS 40 IPSAS 42
IPSAS 49—Retirement Benefit Plans	November 2023	January 1, 2026	IPSAS 39 IPSAS 41

Table C: List of IPSAS no Longer Effective at January 1, 2024

This Table is a list of those IPSAS that are no longer applicable as they have been superseded and/or removed.

IPSAS	Issued	Original -Effective Date On or After	Reason and Date No Longer Effective
IPSAS 6—Consolidated and Separate Financial Statements (revised)	December 2006	January 1, 2008	IPSAS 6 is superseded by IPSAS 34–35 from periods beginning on or after January 1, 2017.
IPSAS 7—Investments in Associates (revised)	December 2006	January 1, 2008	IPSAS 7 is superseded by IPSAS 36 from periods beginning on or after January 1, 2017.
IPSAS 8—Interests in Joint Ventures (revised)	December 2006	January 1, 2008	IPSAS 8 is superseded by IPSAS 37 from periods beginning on or after January 1, 2017.
IPSAS 15—Financial Instruments: Disclosure and Presentation	December 2001	January 1, 2003	IPSAS 15 is superseded by IPSAS 28–30 from periods beginning on or after January 1, 2013.
IPSAS 25— Employee Benefits	February 2008	January 1, 2011	IPSAS 25 is superseded by IPSAS 39 from periods beginning on or after January 1, 2018.

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