

**INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS™**

IPSAS 19, *PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS*

IPSAS®

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IPSAS 19, PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 37 (1998), *Provisions, Contingent Liabilities and Contingent Assets*, published by the International Accounting Standards Board (IASB®), and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* published by the IFRS® Interpretations Committee. Extracts from IAS 37, IFRIC 1, and IFRIC 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 (IFRS®) Foundation.

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IPSAS 19, PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

History of IPSAS

This version includes amendments resulting from IPSAS Standards issued up to January 31, 2025.

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* was issued in October 2002.

Since then, IPSAS 19 has been amended by the following IPSAS Standards:

- *Amendments to IPSAS Standards: Specific IFRIC Interpretations* (issued January 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Collective and Individual Services* (Amendments to IPSAS 19) (issued January 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- IPSAS 14, *Events after the Reporting Date* (issued December 2006)
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2006)

Table of Amended Paragraphs in IPSAS 19

| Paragraph Affected | How Affected | Affected By |
|---------------------------|---------------------|--|
| 1 | Amended | <i>Improvements to IPSAS</i> October 2011 IPSAS 42 January 2019 |
| 2 | Deleted | <i>The Applicability of IPSAS</i> April 2016 |
| 3 | Deleted | <i>The Applicability of IPSAS</i> April 2016 |

| Paragraph Affected | How Affected | Affected By |
|---------------------------|---------------------|---|
| 4 | Amended | <i>Improvements to IPSAS</i> October 2011 IPSAS 41 August 2018 |
| 4A | New | IPSAS 40 January 2017 |
| 5 | Deleted | <i>Improvements to IPSAS</i> October 2011 |
| 6 | Amended | <i>Improvements to IPSAS</i> April 2016 IPSAS 44 May 2022 |
| 6A | New | <i>Collective and Individual Services</i> January 2020 |
| Heading above paragraph 7 | Deleted | IPSAS 42 January 2019 |
| 7 | Deleted | IPSAS 42 January 2019 |
| 8 | Deleted | IPSAS 42 January 2019 |
| 9 | Deleted | IPSAS 42 January 2019 |
| 10 | Deleted | IPSAS 42 January 2019 |
| 11 | Deleted | IPSAS 42 January 2019 |
| 12 | Amended | IPSAS 42 January 2019 |
| 13 | Amended | IPSAS 43 January 2022 IPSAS 47 May 2023 |
| 14 | Amended | IPSAS 39 July 2016 |
| 15 | Amended | IPSAS 47 May 2023 |
| 18 | Amended | <i>Collective and Individual Services</i> January 2020 |
| 19 | Amended | IPSAS 42 January 2019 |
| 22 | Amended | <i>Improvements to IPSAS</i> April 2016 |
| 27 | Amended | IPSAS 45 May 2023 |
| 37 | Amended | IPSAS 37 January 2015 |
| 77 | Amended | IPSAS 42 January 2019 |
| 79A | New | <i>Improvements to IPSAS</i> January 2022 |
| 80 | Amended | <i>Improvements to IPSAS</i> January 2022 |
| 87 | Amended | IPSAS 14 December 2006 |
| 99 | Deleted | IPSAS 42 January 2019 |
| 104 | Deleted | IPSAS 42 January 2019 |
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| Paragraph Affected | How Affected | Affected By |
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| 110 | Deleted | IPSAS 33 January 2015 |
| 110A | New | <i>Improvements to IPSAS</i> January 2022 |
| 110B | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| 111 ¹ | Deleted | IPSAS 3 December 2006 |
| 111A | New | <i>Improvements to IPSAS</i> October 2011 |
| 111B | New | IPSAS 33 January 2015 |
| 111C | New | IPSAS 37 January 2015 |
| 111D | New | <i>Improvements to IPSAS</i> April 2016 |
| 111E | New | <i>The Applicability of IPSAS</i> April 2016 |
| 111F | New | IPSAS 39 July 2016 |
| 111G | New | IPSAS 40 January 2017 |
| 111H | Amended | <i>COVID-19: Deferral of Effective Dates</i> November 2020 |
| 111I | New | IPSAS 42 January 2019 |
| 111J | Amended | <i>COVID-19: Deferral of Effective Dates</i> November 2020 |
| 111K | New | <i>Improvements to IPSAS</i> January 2022 |
| 111L | New | IPSAS 43 January 2022 |
| 111M | New | IPSAS 44 May 2022 |
| 111N | New | IPSAS 45 May 2023 |
| 111O | New | IPSAS 47 May 2023 |
| 111P | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| 112 | Amended | IPSAS 33 January 2015 |
| AG1 | New | <i>Collective and Individual Services</i> January 2020 |
| AG2 | New | <i>Collective and Individual Services</i> January 2020 |
| AG3 | New | <i>Collective and Individual Services</i> January 2020 |
| AG4 | New | <i>Collective and Individual Services</i> January 2020 |
| AG5 | New | <i>Collective and Individual Services</i> January 2020 |
| AG6 | New | <i>Collective and Individual Services</i> January 2020 |

¹ Paragraph 111 was a transitional provision. Subsequent paragraphs have been renumbered.

| Paragraph Affected | How Affected | Affected By |
|---------------------------|---------------------|---|
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| AG8 | New | <i>Collective and Individual Services January 2020</i> |
| AG9 | New | <i>Collective and Individual Services January 2020</i> |
| AG10 | New | <i>Collective and Individual Services January 2020</i> |
| AG11 | New | <i>Collective and Individual Services January 2020</i> |
| AG12 | New | <i>Collective and Individual Services January 2020</i> |
| AG13 | New | <i>Collective and Individual Services January 2020</i> |
| AG14 | New | <i>Collective and Individual Services January 2020</i> |
| AG15 | New | <i>Collective and Individual Services January 2020</i> |
| AG16 | New | <i>Collective and Individual Services January 2020</i> |
| AG17 | New | <i>Collective and Individual Services January 2020</i> |
| AG18 | New | <i>Collective and Individual Services January 2020</i> |
| AG19 | New | <i>Collective and Individual Services January 2020</i> |
| AG20 | New | <i>Collective and Individual Services January 2020</i> |
| B1 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| B2 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| B3 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| B4 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
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| B6 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| B7 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| B8 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
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| Paragraph Affected | How Affected | Affected By |
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| C4 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
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| C6 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| C7 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| C8 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| C9 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| C10 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| C11 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| C12 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| C13 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| IG13 | Deleted | IPSAS 43 January 2022 |
| IG14 | Deleted | IPSAS 41 August 2018 |
| IG16 | Amended | IPSAS 45 May 2023 |
| IE3 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| IE4 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| IE5 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |
| IE6 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations</i> January 2025 |

| Paragraph Affected | How Affected | Affected By |
|---------------------------|---------------------|---|
| IE7 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE8 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE9 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE10 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE11 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE12 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE13 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE14 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE15 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE16 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE17 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE18 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE19 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |
| IE20 | New | <i>Amendments to IPSAS Standards: Specific IFRIC Interpretations January 2025</i> |

**IPSAS 19, PROVISIONS, CONTINGENT LIABILITIES
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International Public Sector Accounting Standard 19, *Provisions, Contingent Liabilities and Contingent Assets*, is set out in the objective and paragraphs 1–112. All the paragraphs have equal authority. IPSAS 19 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to (a) define provisions, contingent liabilities, and contingent assets, and (b) identify the circumstances in which provisions should be recognized, how they should be measured, and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements, to enable users to understand their nature, timing, and amount.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:**
 - (a) **Social benefits within the scope of IPSAS 42;**
 - (b) [Deleted]
 - (c) **Those resulting from executory contracts, other than where the contract is onerous, subject to other provisions of this paragraph;**
 - (d) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;**
 - (e) **Those covered by another IPSAS;**
 - (f) **Those arising in relation to income taxes or income tax equivalents; and**
 - (g) **Those arising from employee benefits, except employee termination benefits that arise as a result of a restructuring, as dealt with in this Standard.**
2. [Deleted]
3. [Deleted]
4. **This Standard does not apply to financial instruments (including guarantees) that are within the scope of IPSAS 41, *Financial Instruments*.**
- 4A. This Standard does not apply to the contingent consideration of an acquirer in a public sector combination which is within the scope of IPSAS 40, *Public Sector Combinations*.
5. [Deleted]
6. This Standard applies to provisions for restructuring (including discontinued operations). When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.
- 6A. This Standard provides guidance on determining whether, and if so, when, a provision arises from collective and individual services (paragraphs AG2–AG20).
7. [Deleted]
8. [Deleted]
9. [Deleted]
10. [Deleted]
11. [Deleted]

Exclusions from the Scope of the Standard

12. This Standard does not apply to executory contracts unless they are onerous.
13. Where another IPSAS deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:
- (a) [Deleted]
 - (b) Leases (see IPSAS 43, *Leases*). However, this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in IPSAS 43. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance with paragraph 7 of IPSAS 43 and that have become onerous; and
 - (c) Revenue from binding arrangements (see IPSAS 47, *Revenue*). However, as IPSAS 47 contains no specific requirements to address binding arrangements that are, or have become, onerous, this Standard applies to such cases.
14. This Standard does not apply to provisions for income taxes or income tax equivalents (guidance on accounting for income taxes is found in IAS 12, *Income Taxes*). Nor does it apply to provisions arising from employee benefits (guidance on accounting for employee benefits is found in IPSAS 39, *Employee Benefits*.)
15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. IPSAS 47 identifies the circumstances in which revenue arising from binding arrangements that include compliance obligations to transfer promised goods or services to the purchaser or third-party beneficiary is recognized and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of IPSAS 47.
16. This Standard defines provisions as liabilities of uncertain timing or amount. In some countries, the term provision is also used in the context of items such as depreciation, impairment of assets, and doubtful debts; these are adjustments to the carrying amounts of assets and are not addressed in this Standard.
17. Other IPSAS specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalization of the costs recognized when a provision is made.

Definitions

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

Collective services are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.

A constructive obligation is an obligation that derives from an entity's actions where:

- (a) **By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and**
- (b) **As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.**

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is:

- (a) **A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or**
- (b) **A present obligation that arises from past events, but is not recognized because:**
 - (i) **It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or**
 - (ii) **The amount of the obligation cannot be measured with sufficient reliability².**

Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

A legal obligation is an obligation that derives from:

- (a) **A contract (through its explicit or implicit terms);**
- (b) **Legislation; or**
- (c) **Other operation of law.**

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

A provision is a liability of uncertain timing or amount.

A restructuring is a program that is planned and controlled by management, and materially changes either:

- (a) **The scope of an entity's activities; or**
- (b) **The manner in which those activities are carried out.**

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

Provisions and Other Liabilities

19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:
- (a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier; and
 - (b) Accruals are liabilities to pay for goods or services that have been received or supplied, but have not been paid, invoiced, or formally agreed with the supplier, including amounts due to employees (for

² Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

Relationship between Provisions and Contingent Liabilities

20. In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard, the term contingent is used for liabilities and assets that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.
21. This Standard distinguishes between:
- (a) Provisions—which are recognized as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and
 - (b) Contingent liabilities—which are not recognized as liabilities because they are either:
 - (i) Possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or
 - (ii) Present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition

Provisions

22. **A provision shall be recognized when:**
- (a) **An entity has a present obligation (legal or constructive) as a result of a past event;**
 - (b) **It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and**
 - (c) **A reliable estimate can be made of the amount of the obligation.**

If these conditions are not met, no provision shall be recognized.

Present Obligation

23. **In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.**
24. In most cases it will be clear whether a past event has given rise to a present obligation. In other cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such cases, an entity determines whether a present obligation exists at the reporting date by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting date. On the basis of such evidence:

- (a) Where it is more likely than not that a present obligation exists at the reporting date, the entity recognizes a provision (if the recognition criteria are met); and
- (b) Where it is more likely that no present obligation exists at the reporting date, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

Past Event

25. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:
- (a) Where the settlement of the obligation can be enforced by law; or
 - (b) In the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.
26. Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future. The only liabilities recognized in an entity's statement of financial position are those that exist at the reporting date.
27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognized as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a public sector entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that public sector entity. Similarly, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused. IPSAS 45, *Property, Plant, and Equipment*, deals with items, including dismantling and site restoring costs, that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where a public sector entity decides to fit emission controls on certain of its vehicles, or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions – for example, by changing their method of operation – they have no present obligation for that future expenditure, and no provision is recognized.
28. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed – indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a decision by an entity's management, governing body, or controlling entity does not give rise to a constructive obligation at the reporting date, unless the decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.
29. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused by a government agency, there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified, or when the controlling

government or the individual agency publicly accepts responsibility for rectification in a way that creates a constructive obligation.

30. Where details of a proposed new law have yet to be finalized, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. However, differences in circumstances surrounding enactment often make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases, it is not possible to judge whether a proposed new law is virtually certain to be enacted as drafted, and any decision about the existence of an obligation should await the enactment of the proposed law.

Probable Outflow of Resources Embodying Economic Benefits or Service Potential

31. For a liability to qualify for recognition, there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).
32. Where there are a number of similar obligations (for example, a government's obligation to compensate individuals who have received contaminated blood from a government-owned hospital), the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized (if the other recognition criteria are met).

Reliable Estimate of the Obligation

33. The use of estimates is an essential part of the preparation of financial statements, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes, and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognizing a provision.
34. In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognized. That liability is disclosed as a contingent liability (see paragraph 100).

Contingent Liabilities

35. **An entity shall not recognize a contingent liability.**
36. A contingent liability is disclosed, as required by paragraph 100, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.
37. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint arrangement debt, that part of the obligation that is to be met by other joint arrangement participants is treated as a contingent liability. The entity recognizes a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.
38. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be

required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made). For example, a local government entity may have breached an environmental law, but it remains unclear whether any damage was caused to the environment. Where, subsequently it becomes clear that damage was caused and remediation will be required, the entity would recognize a provision because an outflow of economic benefits is now probable.

Contingent Assets

39. **An entity shall not recognize a contingent asset.**
40. Contingent assets usually arise from unplanned or other unexpected events that (a) are not wholly within the control of the entity, and (b) give rise to the possibility of an inflow of economic benefits or service potential to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.
41. Contingent assets are not recognized in financial statements, since this may result in the recognition of revenue that may never be realized. However, when the realization of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
42. A contingent asset is disclosed, as required by paragraph 105, where an inflow of economic benefits or service potential is probable.
43. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits or service potential has become probable, an entity discloses the contingent asset (see paragraph 105).

Measurement

Best Estimate

44. **The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.**
45. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.
46. The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Example

A government medical laboratory provides diagnostic ultrasound scanners to both government-owned and privately owned medical centers and hospitals on a full-cost recovery basis. The equipment is provided with a warranty under which the medical centers and hospitals are covered for the cost of repairs of any defects that become apparent within the first six months after purchase. If minor defects were

detected in all equipment provided, repair costs of 1 million currency units would result. If major defects were detected in all equipment provided, repair costs of 4 million currency units would result. The laboratory's past experience and future expectations indicate that, for the coming year, 75% of the equipment will have no defects, 20% of the equipment will have minor defects and 5% of the equipment will have major defects. In accordance with paragraph 32, the laboratory assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

$$(75\% \text{ of nil}) + (20\% \text{ of } 1\text{m}) + (5\% \text{ of } 4\text{m}) = 400,000$$

47. Uncertainties surrounding the amount to be recognized as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is "expected value." The provision will therefore be different, depending on whether the probability of a loss of a given amount is, for example, 60% or 90%. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the midpoint of the range is used.
48. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if a government has to rectify a serious fault in a defense vessel that it has constructed for another government, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 100,000 currency units, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.
49. The provision is measured before tax or tax equivalents. Guidance on dealing with the tax consequences of a provision, and changes in it, is found in IAS 12.

Risks and Uncertainties

50. **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**
51. Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.
52. Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 98(b).

Present Value

53. **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**
54. Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

When a provision is discounted over a number of years, the present value of the provision will increase each year as the provision comes closer to the expected time of settlement (see Illustrative Example).

55. Paragraph 97(e) of this Standard requires disclosure of the increase, during the period, in the discounted amount arising from the passage of time.
56. **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.**
57. In some jurisdictions, income taxes or income tax equivalents are levied on a public sector entity's surplus for the period. Where such income taxes are levied on public sector entities, the discount rate selected should be a pre-tax rate.

Future Events

58. **Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**
59. Expected future events may be particularly important in measuring provisions. For example, certain obligations may be index-linked to compensate recipients for the effects of inflation or other specific price changes. If there is sufficient evidence of likely expected rates of inflation, this should be reflected in the amount of the provision. Another example of future events affecting the amount of a provision is where a government believes that the cost of cleaning up the tar, ash, and other pollutants associated with a gasworks' site at the end of its life will be reduced by future changes in technology. In this case, the amount recognized reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology, or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.
60. The effect of possible new legislation that may affect the amount of an existing obligation of a government or an individual public sector entity is taken into consideration in measuring that obligation, when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both (a) of what legislation will demand, and (b) of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Expected Disposal of Assets

61. **Gains from the expected disposal of assets shall not be taken into account in measuring a provision.**
62. Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognizes gains on expected disposals of assets at the time specified by the IPSAS dealing with the assets concerned.

Reimbursements

63. **Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated**

as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision.

64. **In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.**
65. Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses, or suppliers' warranties). The other party may either reimburse amounts paid by the entity, or pay the amounts directly. For example, a government agency may have legal liability to an individual as a result of misleading advice provided by its employees. However, the agency may be able to recover some of the expenditure from professional indemnity insurance.
66. In most cases, the entity will remain liable for the whole of the amount in question, so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognized for the full amount of the liability, and a separate asset for the expected reimbursement is recognized when it is virtually certain that reimbursement will be received if the entity settles the liability.
67. In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case, the entity has no liability for those costs, and they are not included in the provision.
68. As noted in paragraph 37, an obligation for which an entity is jointly and severally liable is a contingent liability, to the extent that it is expected that the obligation will be settled by the other parties.

Changes in Provisions

69. **Provisions shall be reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.**
70. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as an interest expense.

Use of Provisions

71. **A provision shall be used only for expenditures for which the provision was originally recognized.**
72. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognized for another purpose would conceal the impact of two different events.

Application of the Recognition and Measurement Rules

Future Operating Net Deficits

73. **Provisions shall not be recognized for net deficits from future operating activities.**
74. Net deficits from future operating activities do not meet the definition of liabilities in paragraph 18 and the general recognition criteria set out for provisions in paragraph 22.
75. An expectation of net deficits from future operating activities is an indication that certain assets used in these activities may be impaired. An entity tests these assets for impairment. Guidance on accounting for impairment is found in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate.

Onerous Contracts

76. **If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognized and measured as a provision.**

77. Paragraph 76 of this Standard applies only to contracts that are onerous.
78. Many contracts evidencing exchange transactions (for example, some routine purchase orders) can be canceled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard, and a liability exists that is recognized. Executory contracts that are not onerous fall outside the scope of this Standard.
79. This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. Therefore, it is the present obligation net of recoveries that is recognized as a provision under paragraph 76. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.
- 79A. The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:
- (a) The incremental costs of fulfilling that contract—for example, direct labor and materials; and
 - (b) An allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling that contract among others.
80. Before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract (see IPSAS 21 and IPSAS 26).

Restructuring

81. The following are examples of events that may fall under the definition of restructuring:
- (a) Termination or disposal of an activity or service;
 - (b) The closure of a branch office or termination of activities of a government agency in a specific location or region, or the relocation of activities from one region to another;
 - (c) Changes in management structure, for example, eliminating a layer of management or executive service; and
 - (d) Fundamental reorganizations that have a material effect on the nature and focus of the entity's operations.
82. A provision for restructuring costs is recognized only when the general recognition criteria for provisions set out in paragraph 22 are met. Paragraphs 83–96 set out how the general recognition criteria apply to restructurings.
83. **A constructive obligation to restructure arises only when an entity:**
- (a) **Has a detailed formal plan for the restructuring identifying at least:**
 - (i) **The activity/operating unit or part of an activity/operating unit concerned;**
 - (ii) **The principal locations affected;**
 - (iii) **The location, function, and approximate number of employees who will be compensated for terminating their services;**
 - (iv) **The expenditures that will be undertaken; and**
 - (v) **When the plan will be implemented; and**

- (b) **Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.**

84. Within the public sector, restructuring may occur at the whole-of-government, portfolio or ministry, or agency level.
85. Evidence that a government or an individual entity has started to implement a restructuring plan would be provided, for example, by (a) the public announcement of the main features of the plan, (b) the sale or transfer of assets, (c) notification of intention to cancel leases, or (d) the establishment of alternative arrangements for clients of services. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it gives rise to valid expectations in other parties, such as users of the service, suppliers, and employees (or their representatives) that the government or the entity will carry out the restructuring.
86. For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible, and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins, or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the government or individual entity is at present committed to restructuring, because the timeframe allows opportunities for the government or entity to change its plans.
87. A decision by management or the governing body to restructure, taken before the reporting date, does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:
- (a) Started to implement the restructuring plan; or
 - (b) Announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, disclosure may be required under IPSAS 14, *Events after the Reporting Date*, if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the financial statements.

88. Although a constructive obligation is not created solely by a management or governing body decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale or transfer of an operation, may have been concluded subject only to governing body or board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 83 are met.
89. In some countries, (a) the ultimate authority for making decisions about a public sector entity is vested in a governing body or board whose membership includes representatives of interests other than those of management (for example, employees), or (b) notification to these representatives may be necessary before the governing body or board decision is taken. Because a decision by such a governing body or board involves communication to these representatives, it may result in a constructive obligation to restructure.

Sale or Transfer of Operations

90. **No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.**

91. Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind, and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.
92. Restructuring within the public sector often involves the transfer of operations from one controlled entity to another, and may involve the transfer of operations at no or nominal consideration. Such transfers will often take place under a government directive, and will not involve binding agreements as described in paragraph 90. An obligation exists only when there is a binding transfer agreement. Even where proposed transfers do not lead to the recognition of a provision, the planned transaction may require disclosure under other IPSAS, such as IPSAS 14, and IPSAS 20, *Related Party Disclosures*.

Restructuring Provisions

93. **A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:**
- (a) **Necessarily entailed by the restructuring; and**
 - (b) **Not associated with the ongoing activities of the entity.**
94. A restructuring provision does not include such costs as:
- (a) Retraining or relocating continuing staff;
 - (b) Marketing; or
 - (c) Investment in new systems and distribution networks.
- These expenditures relate to the future conduct of an activity, and are not liabilities for restructuring at the reporting date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring.
95. Identifiable future operating net deficits up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract, as defined in paragraph 18.
96. As required by paragraph 61, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

Disclosure

97. **For each class of provision, an entity shall disclose:**
- (a) **The carrying amount at the beginning and end of the period;**
 - (b) **Additional provisions made in the period, including increases to existing provisions;**
 - (c) **Amounts used (that is, incurred and charged against the provision) during the period;**
 - (d) **Unused amounts reversed during the period; and**
 - (e) **The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.**

Comparative information is not required.

98. **An entity shall disclose the following for each class of provision:**

- (a) **A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;**
- (b) **An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 58; and**
- (c) **The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.**

99. [Deleted]

100. **Unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:**

- (a) **An estimate of its financial effect, measured under paragraphs 44–62;**
- (b) **An indication of the uncertainties relating to the amount or timing of any outflow; and**
- (c) **The possibility of any reimbursement.**

101. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the requirements of paragraphs 98(a) and (b) and 100(a) and (b). Thus, it may be appropriate to treat, as a single class of provision, amounts relating to one type of obligation, but it would not be appropriate to treat, as a single class, amounts relating to environmental restoration costs and amounts that are subject to legal proceedings.

102. Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 97, 98, and 100 in a way that shows the link between the provision and the contingent liability.

103. An entity may in certain circumstances use external valuation to measure a provision. In such cases, information relating to the valuation can usefully be disclosed.

104. [Deleted]

105. **Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 44–62.**

106. The disclosure requirements in paragraph 105 are only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the entity. That is, there is no requirement to disclose this information about all contingent assets (see paragraphs 39 to 43 for a discussion of contingent assets). It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising. For example, a contingent asset would arise from a contract where a public sector entity allows a private sector company to mine one of its properties in exchange for a royalty based on a set price per ton extracted, and the company has commenced mining. In addition to disclosing the nature of the arrangement, the contingent asset should be quantified, where a reasonable estimate can be made of the quantity of mineral to be extracted and the timing of the expected cash inflows. If there were no proven reserves, or some other circumstances prevailed that indicated that it would be unlikely that any minerals would be extracted, the public sector entity would not disclose information required by paragraph 105 as there is no probable flow of benefits.

107. The disclosure requirements in paragraph 105 encompasses contingent assets from an entity's transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are addressed in IPSAS 47.
108. **Where any of the information required by paragraphs 100 and 105 is not disclosed because it is not practicable to do so, that fact shall be stated.**
109. **In extremely rare cases, disclosure of some or all of the information required by paragraphs 97–107 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**

Transitional Provisions

110. [Deleted]
- 110A. *Improvements to IPSAS, 2021*, issued in January 2022 added paragraph 79A and amended paragraph 80. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of net assets/equity or other component of net assets/equity, as appropriate, at the date of initial application.
- 110B. *Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025, added Appendix B and Appendix C. Changes in accounting policies and changes in accounting estimates shall be accounted for according to the requirements of *IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors*.

Effective Date

111. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2004. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2004, it shall disclose that fact.**
- 111A. **Paragraph 5 was deleted and paragraphs 1 and 4 were amended by *Improvements to IPSAS 2011* issued in October 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**
- 111B. **Paragraphs 110 and 112 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**
- 111C. **IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 37. An entity shall apply that amendment when it applies IPSAS 37.**
- 111D. **Paragraph 6 was amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1,**

2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017, it shall disclose that fact.

- 111E. Paragraphs 2 and 3 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.
- 111F. Paragraph 14 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.
- 111G. Paragraph 4A was added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.
- 111H. Paragraph 4 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.
- 111I. Paragraphs 1, 12, 19, and 77 were amended and paragraphs 7–11, 99 and 104 were deleted by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.
- 111J. Paragraphs 6A and AG1–AG20 were added and paragraph 18 was amended by *Collective and Individual Services (Amendments to IPSAS 19)*, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 42, *Social Benefits*, at the same time.
- 111K. Paragraphs 79A and 110A were added and paragraph 80 was amended by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.
- 111L. Paragraph 13 was amended by IPSAS 43 issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.
- 111M. Paragraph 6 was amended by IPSAS 44 issued in May 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.
- 111N. Paragraph 27 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.
- 111O. Paragraphs 13, 15, and 107 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026.

Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

- 111P. **Appendix B (paragraphs B1-B8) and Appendix C (paragraphs C1-C13) were added by *Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025. An entity shall apply these amendments for annual periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, 2026, it shall disclose that fact.**
112. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Tables

Provisions, Contingent Liabilities, Contingent Assets, and Reimbursements

These Tables accompany, but are not part of, IPSAS 19.

Provisions and Contingent Liabilities

| | | |
|--|--|---|
| <p>Where, as a result of past events, there may be an outflow of resources embodying future economic benefits or service potential in settlement of (a) a present obligation, or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.</p> | | |
| <p>There is a present obligation that probably requires an outflow of resources.</p> | <p>There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.</p> | <p>There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.</p> |
| <p>A provision is recognized (paragraph 22).</p> | <p>No provision is recognized (paragraph 35).</p> | <p>No provision is recognized (paragraph 35).</p> |
| <p>Disclosures are required for the provision (paragraphs 97 and 98).</p> | <p>Disclosures are required for the contingent liability (paragraph 100).</p> | <p>No disclosure is required (paragraph 100).</p> |

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognized because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent Assets

| | | |
|---|--|---|
| <p>Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.</p> | | |
| <p>The inflow of economic benefits or service potential is virtually certain.</p> | <p>The inflow of economic benefits or service potential is probable, but not virtually certain.</p> | <p>The inflow of economic benefits or service potential is not probable.</p> |
| <p>The asset is not contingent (paragraph 41).</p> | <p>No asset is recognized (paragraph 39).</p> | <p>No asset is recognized (paragraph 39).</p> |
| | <p>Disclosures are required (paragraph 105).</p> | <p>No disclosure is required (paragraph 105).</p> |

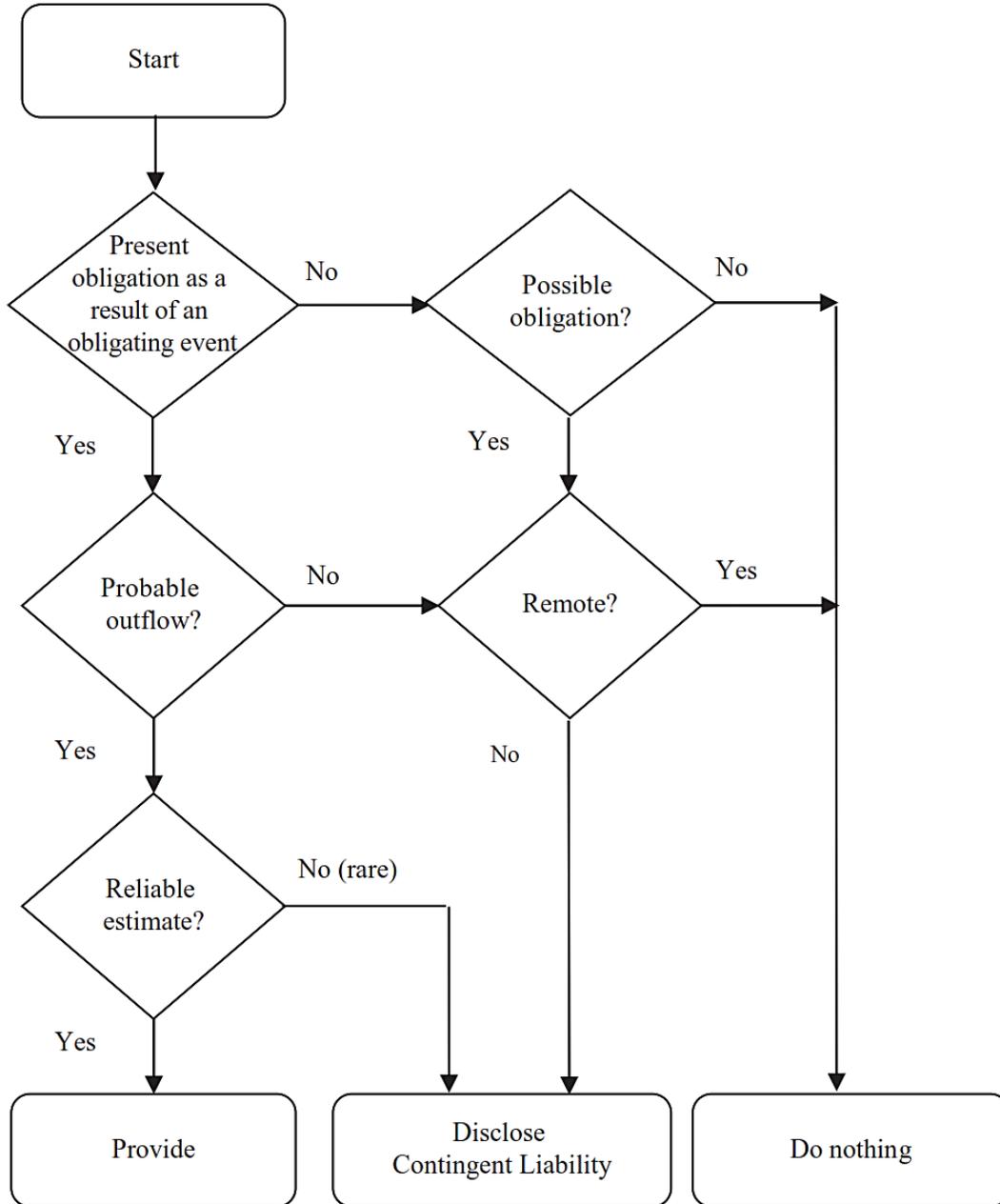
Reimbursements

| | | |
|--|--|--|
| <p>Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.</p> | | |
| <p>The entity has no obligation for the part of the expenditure to be reimbursed by the other party.</p> | <p>The obligation for the amount expected to be reimbursed remains with the entity, and it is virtually certain that reimbursement will be received if the entity settles the provision.</p> | <p>The obligation for the amount expected to be reimbursed remains with the entity, and the reimbursement is not virtually certain if the entity settles the provision.</p> |
| <p>The entity has no liability for the amount to be reimbursed (paragraph 67).</p> | <p>The reimbursement is recognized as a separate asset in the statement of financial position, and may be offset against the expense in the statement of financial performance. The amount recognized for the expected reimbursement does not exceed the liability (paragraphs 63 and 64).</p> | <p>The expected reimbursement is not recognized as an asset (paragraph 63).</p> |
| <p>No disclosure is required.</p> | <p>The reimbursement is disclosed, together with the amount recognized for the reimbursement (paragraph 98(c)).</p> | <p>The expected reimbursement is disclosed (paragraph 98(c)).</p> |

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 19.

Note: In some cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date (paragraph 23 of this Standard).



Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 19.

Introduction

AG1. This Appendix provides guidance on determining whether a provision arises for *Collective and Individual Services*. These transactions do not meet the definition of social benefits in IPSAS 42, *Social Benefits* (and are therefore outside the scope of that Standard). This Appendix addresses the question of whether a provision needs to be recognized for these transactions before the services are delivered.

Collective and Individual Services

Scope of Collective and Individual Services

AG2. This Standard defines collective services as services provided by a public sector entity simultaneously to all members of the community and are intended to address the needs of society as a whole. The provision of a collective service to one individual does not reduce the amount available to other individuals; there is no rivalry in the consumption of collective services. Consumption of collective services is usually passive and does not require the explicit agreement or active participation of those benefiting from the service.

AG3. This Standard defines individual services as goods and services provided to individuals and households by a public sector entity and are intended to address the needs of society as a whole. The provision of an individual service to one individual may reduce the amount available to other individuals, or may delay the receipt of those services by some individuals. Consumption of individual services requires the explicit agreement or active participation of those benefiting from the service. Goods or services provided by a public sector entity on commercial terms do not address the needs of society as a whole, and therefore do not satisfy the definition of individual services.

AG4. Social benefits and *Collective and Individual Services* all address the needs of society as a whole. Addressing the needs of society as a whole does not require that each collective or individual service covers all members of society; such services can cover different segments of society. A collective or individual service that covers a segment of society as part of a wider system of similar services meets the requirement that it addresses the needs of society as a whole.

AG5. Collective services and individual services involve the provision of services by, or on behalf of, a public sector entity. Consequently, cash transfers are not collective or individual services.

AG6. Public sector entities provide *Collective and Individual Services* through their employees or by purchasing goods and services from third party providers.

AG7. Examples of collective services include defense and street lighting. Examples of individual services include healthcare and education provided at no or nominal cost. Individual services may or may not have eligibility criteria, such as reaching a certain age or a residential requirement; however, the existence (or otherwise) of eligibility criteria does not change the determination of whether transactions satisfy the definition of individual services.

AG8. Collective services are provided to a community rather than to individuals, which distinguishes them from individual services and social benefits. Individual services involve the delivery of services to individuals and/or households, which distinguishes them from social benefits that involve cash transfers (including cash equivalents such as pre-paid debit cards).

- AG9. In some jurisdictions, individuals may pay for services, for example healthcare, and subsequently be reimbursed by a public sector entity. The substance of these reimbursements is that the public sector entity is paying for the services, and the transaction is an individual service rather than a social benefit.
- AG10. The following table compares the key characteristics of social benefits (as defined in IPSAS 42), individual services and collective services.

| | Social Benefits | Individual Services | Collective Services |
|---|------------------------|----------------------------|----------------------------|
| Involves a cash transfer to eligible beneficiaries? | √ | × | × |
| Provided to individuals and/or households rather than to a community? | √ | √ | × |
| Intended to address the needs of society as a whole? | √ | √ | √ |

Provision Recognized for Collective Services before the Services are Delivered

- AG11. An intention to deliver collective services, budget approval to deliver those services, or the existence of legislation in respect of those services are not, in themselves, sufficient to give rise to a present obligation.
- AG12. Collective services are ongoing activities of the public sector entity that delivers the services. Paragraph 26 of this Standard states that “no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future.” Consequently, in accordance with the principles of this Standard, no provision is recognized for the intention to deliver such services.
- AG13. In delivering collective services, a public sector entity acquires resources and incurs expenses, usually through contracts and other binding arrangements. Examples include the electricity used in delivering street lighting, the salaries paid to acquire the services of defense staff, the acquisition of non-current assets used in delivering those services, and the purchase of collective services from a third-party provider. These contracts or other binding arrangements are accounted for in accordance with other IPSAS. In some circumstances, these arrangements may give rise to provisions, for example where a contract or other binding arrangement becomes onerous. However, any such provisions relate to the binding arrangement and not to the intention to deliver collective services to the public.

No Provision Recognized for Individual Services before the Services are Delivered

- AG14. An intention to deliver individual services, budget approval to deliver those services, or the existence of legislation in respect of those services are not, in themselves, sufficient to give rise to a present obligation. There are no past events that give rise to a liability for collective or individual services. As noted in paragraph AG7, individual services may or may not have eligibility criteria, such as reaching a certain age or a residential requirement. However, the existence (or otherwise) of eligibility criteria does not change the determination of whether transactions satisfy the definition of individual services.
- AG15. The delivery of individual services is an ongoing activity of the public sector entity that provides the services. The delivery of individual services results in the public sector entity acquiring resources and incurring expenses, usually through contracts or other binding arrangements.
- AG16. The public sector entity uses these resources to deliver services to specific individuals and/or households. Where individuals and/or households access individual services, the entity may have a number of future obligations relating to the delivery of these individual services. Such obligations are an aspect of the ongoing activities of the public sector entity. Similar to collective services, and in accordance with the principles of this

Standard, no provision is recognized for the intention to deliver such services prior to individuals and/or households accessing the services.

- AG17. Examples of the resources acquired and expenses incurred in delivering individual services include the pharmaceuticals or medical supplies used in delivering healthcare, the salaries paid to acquire the services of teachers, the acquisition of non-current assets used in delivering those services (for example, a hospital or an ambulance), and the purchase of individual services from a third-party provider. These contracts and other binding arrangements are accounted for in accordance with other IPSAS. In some circumstances, these arrangements may give rise to provisions, for example where a contract or other binding arrangement becomes onerous. However, any such provisions relate to the binding arrangement and not to the intention to deliver individual services to the public.

Presentation and Disclosure of Collective and Individual Services

- AG18. An entity shall present and disclose information about collective services and individual services in accordance with other IPSAS, including IPSAS 1, *Presentation of Financial Statements*, IPSAS 2, *Cash Flow Statements* and IPSAS 18, *Segment Reporting*.
- AG19. IPSAS 1 requires an entity to “present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant.”
- AG20. Where an entity presents information based on the nature of expenses, collective services and individual services will be included in items such as employee benefit costs. Where an entity presents information based on the function of the expenses within the entity, collective services and individual services may be presented as individual line items or amalgamated with similar items depending upon their materiality.

Changes in Existing Decommissioning, Restoration and Similar Liabilities

This Appendix is an integral part of IPSAS 19.

Introduction

- B1. Many entities have obligations to dismantle, remove and restore items of property, plant, and equipment. In this Appendix, such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under paragraph 14(c) of IPSAS 45, *Property, Plant, and Equipment*, the cost of an item of property, plant and equipment includes 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. Similarly, under paragraph 25(d) of IPSAS 43, *Leases*, the cost of the right-of-use asset includes the initial estimate of costs to be incurred by a lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. IPSAS 19 contains requirements on how to measure decommissioning, restoration and similar liabilities. This Appendix provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.
- B2. This Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:
- (a) Recognized as part of the cost of an item of property, plant, and equipment in accordance with IPSAS 45 or as part of the cost of a right-of-use asset in accordance with IPSAS 43; and
 - (b) Recognized as a liability in accordance with IPSAS 19.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

- B3. This Appendix addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:
- (a) A change in the estimated transfer of resources embodying service potential or economic benefits (e.g., cash flows) required to settle the obligation;
 - (b) A change in the current market-based discount rate as defined in paragraph 56 of IPSAS 19 (this includes changes in the time value of money and the risks specific to the liability); and
 - (c) An increase that reflects the passage of time (also referred to as the unwinding of the discount).

Application of IPSAS 19 to Changes in Existing Decommissioning, Restoration and Similar Liabilities

- B4. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the transfer of resources embodying service potential or economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs B5–B7 below.
- B5. If the related asset is measured using the historical cost model:
- (a) Subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.

- (b) The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in surplus or deficit.
- (c) If the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*.

B6. If the related asset is measured using the current value model:

- (a) A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the reporting date. If a revaluation is necessary, all assets of that class shall be revalued. Any such revaluation shall be taken into account in determining the amounts to be recognized in surplus or deficit or in net assets/equity.
- (b) Changes in the liability alter the revaluation surplus or deficit previously recognized on that class of assets, so that:
 - (i) A decrease in the liability shall (subject to (c)) be recognized in net assets/equity and increase the revaluation surplus within net assets/equity, except that it shall be recognized in surplus or deficit to the extent that it reverses a revaluation deficit on the class of assets that was previously recognized in surplus or deficit;
 - (ii) An increase in the liability shall be recognized in surplus or deficit, except that it shall be recognized in net assets/equity and reduce the revaluation surplus within net assets/equity to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.
- (c) In the event that a decrease in the liability exceeds the carrying amount that would have been recognized had the asset been carried under the historical cost model, the excess shall be recognized immediately in surplus or deficit.
- (d) IPSAS 1, *Presentation of Financial Statements* requires disclosure in the statement of changes in net assets/equity of each component of net assets/equity. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

B7. The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognized in surplus or deficit as they occur. This applies under both the historical cost model and the current value model.

B8. The periodic unwinding of the discount shall be recognized in surplus or deficit as a finance cost as it occurs. Capitalization under IPSAS 5, *Borrowing Costs* is not permitted.

Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This Appendix is an integral part of IPSAS 19.

Introduction

- C1. The purpose of decommissioning, restoration and environmental rehabilitation funds, hereafter referred to as 'decommissioning funds' or 'funds', is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as 'decommissioning'.
- C2. Contributions to these funds may be voluntary or required by regulation or law. The funds may have one of the following structures:
- (a) Funds that are established by a single contributor to fund its own decommissioning obligations, whether for a particular site, or for a number of geographically dispersed sites.
 - (b) Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations, when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor.
 - (c) Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity. In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realizable from the fund (based on past activity).
- C3. Such funds generally have the following features:
- (a) The fund is separately administered by independent trustees.
 - (b) Entities (contributors) make contributions to the fund, which are invested in a range of assets that may include both debt and equity investments, and are available to help pay the contributors' decommissioning costs. The trustees determine how contributions are invested, within the constraints set by the fund's governing documents and any applicable legislation or other regulations.
 - (c) The contributors retain the obligation to pay decommissioning costs. However, contributors are able to obtain reimbursement of decommissioning costs from the fund up to the lower of the decommissioning costs incurred and the contributor's share of assets of the fund.
 - (d) The contributors may have restricted access or no access to any surplus of assets of the fund over those used to meet eligible decommissioning costs.
- C4. This Appendix applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:
- (a) The assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
 - (b) A contributor's right to access the assets is restricted.

- C5. A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of IPSAS 41, *Financial Instruments* and is not within the scope of this Standard.
- C6. The issues addressed in this Appendix are:
- (a) How should a contributor account for its interest in a fund?
 - (b) When a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how should that obligation be accounted for?

Application of IPSAS 19 to Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Accounting for an Interest in a Fund

- C7. The contributor shall recognize its obligation to pay decommissioning costs as a liability and recognize its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.
- C8. The contributor shall determine whether it has control or joint control of, or significant influence over, the fund by reference to IPSAS 35, *Consolidated Financial Statements*, IPSAS 37, *Joint Arrangements*, and IPSAS 36, *Investments in Associates and Joint Ventures*, respectively. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.
- C9. If a contributor does not have control or joint control of, or significant influence over, the fund, the contributor shall recognize the right to receive reimbursement from the fund as a reimbursement in accordance with this Standard. This reimbursement shall be measured at the lower of:
- (a) The amount of the decommissioning obligation recognized; and
 - (b) The contributor's share of the current value of the net assets of the fund attributable to contributors.
 - (c) Changes in the carrying amount of the right to receive reimbursement other than contributions to and payments from the fund shall be recognized in surplus or deficit in the period in which these changes occur.

Accounting for Obligations to Make Additional Contributions

- C10. When a contributor has an obligation to make potential additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of this Standard. The contributor shall recognize a liability only if it is probable that additional contributions will be made.

Disclosure

- C11. A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.
- C12. When a contributor has an obligation to make potential additional contributions that is not recognized as a liability (see paragraph C10), it shall make the disclosures required by paragraph 100 of this Standard.
- C13. When a contributor accounts for its interest in the fund in accordance with paragraph C9, it shall make the disclosures required by paragraph 98(c) of this Standard.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 19.

Revision of IPSAS 19 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC1. When IPSAS 19 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

- (a) Sales of assets in the public sector might not be completed within one year because of the levels of approval required. This had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB had concerns that not depreciating assets for an extended period of time might be inappropriate.
- (b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements might not provide relevant information for these transfers. However, the IPSASB had recognized that the measurement and disclosure requirements in IFRS 5 might be appropriate where sales are intended to take place at fair value.
- (c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements might not provide relevant information for public sector discontinued operations. However, the IPSASB had recognized that the disclosure requirements in IFRS 5 might be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference might result in entities following the requirements of IFRS 5 in circumstances where this may not be appropriate. The IPSASB had noted that IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSAS. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

BC1A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 19 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC2. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

- (a) Removes the standard paragraphs about *The Applicability of IPSAS* to “public sector entities other than GBEs” from the scope section of each Standard;
- (b) Replaces the term “GBE” with the term “commercial public sector entities”, where appropriate; and

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

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

Revision of IPSAS 19 as a result of IPSAS 42, *Social Benefits*

- BC3. When issued, this Standard excluded provisions and contingent liabilities “arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits” from the scope of the Standard. This reflected the view at that time that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability required further consideration.
- BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.
- BC5. Following the publication of IPSAS 42, all social benefits (as defined in that Standard) will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of IPSAS 42.

Revision of IPSAS 19 as a result of *Collective and Individual Services (Amendments to IPSAS 19)* issued in January 2020.

Collective and Individual Services

- BC6. When IPSAS 19 was first issued, “provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits” were excluded from the scope of the Standard. IPSAS 19 described social benefits in wide terms as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
 - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.”
- BC7. IPSAS 42, *Social Benefits*, was issued in January 2019. IPSAS 42 amended IPSAS 19, which now excludes from its scope social benefits within the scope of IPSAS 42 (i.e., cash transfers (including cash equivalents) provided to mitigate the effect of social risks, rather than the wider range of transactions previously referred to as social benefits). A consequence of this amendment was to bring within the scope of IPSAS 19 any provisions and contingent liabilities arising from transactions that were previously excluded from the scope of IPSAS 19, but which are not within the scope of IPSAS 42. The IPSASB therefore agreed to provide guidance on accounting for these transactions. As was previously noted in IPSAS 19, a key issue for stakeholders was whether a provision arose in respect of those transactions.
- BC8. Such transactions were referred to in the IPSASB’s Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* (issued in August 2017), as “collective services” and “universally accessible services.” (As explained in paragraph BC10, the IPSASB later decided to replace the term “universally accessible services” with the term “individual services.”) In that CP, the IPSASB expressed a preliminary view that “non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient.” As a result, a performance obligation approach

to recognizing a non-exchange expense for these transactions would not be appropriate. Respondents to the CP generally supported that preliminary view.

- BC9. In the CP, the IPSASB noted that “a public sector entity may have a number of future obligations relating to the provision of universally accessible services and collective services. Such obligations are an aspect of the ongoing activities of governments and other public sector entities; however, only present obligations give rise to liabilities. The expected future sacrifice of resources does not of itself mean that there is a present obligation. Therefore, the IPSASB is of the view that universally accessible services and collective services do not give rise to obligating events and therefore liabilities or expenses do not arise prior to the delivery of those services to beneficiaries.”
- BC10. Respondents to the CP also generally supported this view, and the IPSASB agreed to provide Application Guidance on accounting for these transactions in line with the approach set out in the CP. The IPSASB also noted that some respondents considered that the term “universally accessible services” was confusing. The IPSASB agreed to avoid this term, and instead agreed to adopt the term “individual services”, which is consistent with the term used in Government Finance Statistics (GFS) and with the term used in the IPSASB’s earlier work on social benefits.
- BC11. The IPSASB agreed that, because liabilities or expenses for the delivery of *Collective and Individual Services* do not arise prior to the delivery of those services to beneficiaries, it is appropriate to account for the delivery of these services in accordance with other IPSAS. For example, IPSAS 39, *Employee Benefits*, covers the expenses incurred in employing staff to deliver these services, IPSAS 12, *Inventories*, covers the expenses incurred in delivering goods to individuals and households, and IPSAS 41, *Financial Instruments*, covers the financial liability that may be incurred in acquiring goods or services.
- BC12. In agreeing that liabilities or expenses for the delivery of *Collective and Individual Services* do not arise prior to the delivery of those services to beneficiaries, the IPSASB noted that although the nature of *Collective and Individual Services* are different, the rationale for why a provision does not arise earlier for both these expense categories was similar. The IPSASB agreed that the guidance should reflect this.
- BC13. The IPSASB noted that collective services are ongoing activities of government. Paragraph 26 of IPSAS 19 states that “no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future”. Consequently, the IPSASB agreed that recognizing a provision for collective services would be contrary to the requirements of paragraph 26 of IPSAS 19.
- BC14. The IPSASB noted that individual services are ongoing activities of government, in the same way as collective services, and that recognizing a provision for such services would also be contrary to the requirements of paragraph 26 of IPSAS 19.
- BC15. The IPSASB considered whether specific disclosures for *Collective and Individual Services* were required, and concluded that the existing requirements in IPSAS 1, *Presentation of Financial Statements*, IPSAS 2, *Cash Flow Statements*, and IPSAS 18, *Segment Reporting*, and the various IPSAS dealing with the specific transactions would provide sufficient information to meet users’ needs. Consequently, the IPSASB agreed not to require any specific disclosures for *Collective and Individual Services*.

Responses to ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19)

- BC16. The IPSASB issued its proposals in ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) in January 2019.
- BC17. Respondents generally supported the proposals in respect of *Collective and Individual Services*, but raised a number of issues for the IPSASB to consider in finalizing the amendments.

BC18. A number of these issues related to the definitions of collective services and individual services. The IPSASB decided not to make any changes to the definitions, for the following reasons:

- (a) Some respondents questioned whether two definitions were required when the accounting treatment was the same. The IPSASB considered that the fact that the nature of collective services is different from the nature of individual services meant that retaining separate definitions was appropriate. The IPSASB also noted that this would be consistent with the approach in GFS.
- (b) Respondents commented that *Collective and Individual Services* are non-cash transactions and that this should be reflected in the definitions. The IPSASB decided to make specific reference to the non-cash nature of *Collective and Individual Services* in the Application Guidance.
- (c) Some respondents questioned why the definition of collective services did not refer to goods, unlike the definition of individual services. The IPSASB noted that the assets (such as lamp posts) that are used to deliver collective services are referred to in GFS as collective goods. However, such assets remain under the entity's control and are not transferred to service recipients. Consequently, the IPSASB agreed not to include goods in the definition of collective services.
- (d) A respondent proposed amending the definitions of collective services and individual services to refer to services that are continually provided. The IPSASB considered that this was already implicitly addressed in the description of collective services and individual services as ongoing activities of public sector entities, and agreed that no change to the definitions was needed. The IPSASB noted that a consequence of the fact that *Collective and Individual Services* are continually provided is that no provision is recognized because the past event that gives rise to a present obligation occurs simultaneously with the provision of services that satisfies that obligation.

BC19. Further issues related to the accounting for *Collective and Individual Services*. There was strong support for the proposals that a provision should not be recognized for these transactions, but some respondents considered that the rationale needed to be strengthened. In considering these comments, the IPSASB came to the following conclusions:

- (a) Some respondents commented that as well as being ongoing activities of a public sector entity, *Collective and Individual Services* were not independent of an entity's future actions, as described in paragraph 27 of IPSAS 19. These respondents considered that this should be discussed in the final pronouncement. The IPSASB accepted that this would be true in some cases, but noted that in many jurisdictions, there is a legal requirement for a government or other public sector entity to provide collective services. While there may be elements of discretion in how the services are delivered, the obligation to provide services remains. Consequently, the IPSASB agreed not to include this issue.
- (b) Respondents noted that in IPSAS 42, the IPSASB had acknowledged that some stakeholders considered that an entity having to recognize large liabilities for services to be delivered in the future without the recognition of future taxes to pay for those services is unlikely to meet the objectives of financial reporting and satisfy the qualitative characteristics. Respondents considered that this rationale applied equally to *Collective and Individual Services*. The IPSASB concurred.
- (c) Some respondents commented that while no provision arises from an entity's intentions to deliver *Collective and Individual Services* to the public, a provision might arise from the binding arrangements through which those services are provided. The IPSASB concurred and agreed to include additional guidance to this effect.
- (d) Some respondents raised concerns regarding the proposed treatment of vouchers in ED 67, and questioned whether they should be treated in same way as loyalty programs such as airlines' frequent flier programs. The IPSASB accepted these concerns, and noted that the appropriate treatment (in terms of the past event and therefore the recognition point) will vary depending on the conditions

attached to the vouchers. The IPSASB agreed it was inappropriate to develop guidance for all these circumstances.

Emergency Relief

- BC20. The IPSASB included proposals for accounting for emergency relief in ED 67. While many respondents were supportive of providing such guidance, several issues were raised. Respondents considered that a definition of emergency relief would be required, notwithstanding the fact that the diverse practices across jurisdictions makes this difficult. Respondents also questioned whether the proposed distinction between emergency relief that is an ongoing activity of government and emergency relief provided in response to specific emergencies was always appropriate, and whether it could be applied consistently. Respondents further questioned how other assistance that did not fall within the scope of emergency relief should be accounted for.
- BC21. In light of these concerns, the IPSASB decided not to proceed with the guidance on emergency relief proposed in ED 67. The IPSASB decided to consider the topic in developing its Mid-Term Work Program Consultation 2021.

Revision of IPSAS 19 as a result of COVID-19: Deferral of Effective Dates

- BC22. The IPSASB published *Collective and Individual Services (Amendments to IPSAS 19)* in January 2020. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.
- BC23. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.
- BC24. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.
- BC25. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 19 as a result of *Improvements to IPSAS, 2021*

- BC26. The IPSASB reviewed the revisions to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, included in *Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)* issued by the IASB in May 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments.

Revisions of IPSAS 19 as a result of *Amendments to IPSAS Standards: Specific IFRIC Interpretations*

- BC27. In September 2023, the IPSASB initiated a narrow scope project to consider seven IFRIC and SIC Interpretations that were issued by the IFRS Interpretations Committee, but had not yet been considered by the IPSASB, to determine their applicability to the public sector. In its assessment, the IPSASB considered whether public sector entities may face similar application issues, and whether incorporating guidance based on the Interpretations into IPSAS would help clarify the application of existing accounting principles.
- BC28. Based on its review of the Interpretations and the IFRS Interpretations Committee's considerations in reaching its consensus as set out in its Basis for Conclusions, the IPSASB generally concurred that there was no public sector specific reason for not incorporating the guidance based on the following Interpretations into IPSAS 19:
- (a) IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, first issued by the IASB in 2004; and

- (b) IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, first issued by the IASB in 2004.

BC29. In April 2024, the IPSASB published Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations*, which proposed to incorporate guidance into IPSAS to clarify the application of existing accounting principles, based on IFRIC 1 and IFRIC 5. The IPSASB received strong constituent support for these proposals. Therefore, it decided to amend IPSAS 19 to incorporate the proposed guidance.

Implementation Guidance

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

Recognition

- IG1. All the entities in the examples have a reporting date of December 31. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples, the circumstances described may have resulted in impairment of the assets—this aspect is not dealt with in the examples.
- IG2. The cross-references provided in the examples indicate paragraphs of this Standard that are particularly relevant. This guidance should be read in the context of the full text of this Standard.
- IG3. References to “best estimate” are to the present value amount, where the effect of the time value of money is material.

Warranties

- IG4. Government Department A manufactures search and rescue equipment for use within the Government and for sale to the public. At the time of sale, the Department gives warranties to purchasers in relation to certain products. Under the terms of the sale, the Department undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (that is, more likely than not) that there will be some claims under the warranties.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits or service potential in settlement – Probable for the warranties as a whole (see paragraph 32).

Conclusion

A provision is recognized for the best estimate of the costs of making good under the warranty products sold on or before the reporting date (see paragraphs 22 and 32).

Contaminated Land—Legislation Virtually Certain to be Enacted

- IG5. A provincial government owns a warehouse on land near a port. The provincial government has retained ownership of the land because it may require the land for future expansion of its port operations. For the past ten years, a group of farmers have leased the property as a storage facility for agricultural chemicals. The national government announces its intention to enact environmental legislation requiring property owners to accept liability for environmental pollution, including the cost of cleaning-up contaminated land. As a result, the provincial government introduces a hazardous chemical policy and begins applying the policy to its activities and properties. At this stage it becomes apparent that the agricultural chemicals have contaminated the land surrounding the warehouse. The provincial government has no recourse against the farmers or its insurance company for the clean-up costs. At December 31, 2001 it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year end.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land because of the virtual certainty of legislation requiring the clean-up.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Contamination and Constructive Obligation

IG6. A government has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The government has a record of honoring this published policy. There is no environmental legislation in place in the jurisdiction. During the course of a naval exercise, a vessel is damaged and leaks a substantial amount of oil. The government agrees to pay for the costs of the immediate clean-up and the ongoing costs of monitoring and assisting marine animals and birds.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the environment, which gives rise to a constructive obligation because the policy and previous conduct of the government has created a valid expectation that the government will clean up the contamination.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Gravel Quarry

IG7. A government operates a gravel quarry on land that it leases on a commercial basis from a private sector company. The gravel is used for the construction and maintenance of roads. The agreement with the landowners requires the government to restore the quarry site by removing all buildings, reshaping the land, and replacing all topsoil. 60% of the eventual restoration costs relate to the removal of the quarry buildings and restoration of the site, and 40% arise through the extraction of gravel. At the reporting date, the quarry buildings have been constructed, and excavation of the site has begun but no gravel has been extracted.

Analysis

Present obligation as a result of a past obligating event – The construction of buildings and the excavation of the quarry creates a legal obligation under the terms of the agreement to remove the buildings and restore the site, and is thus an obligating event. At the reporting date, however, there is no obligation to rectify the damage that will be caused by extraction of the gravel.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of 60% of the eventual costs that relate to the removal of the buildings and restoration of the site (see paragraph 22). These costs are included as part of the cost of the quarry. The 40% of costs that arise through the extraction of gravel are recognized as a liability progressively when the gravel is extracted.

Refunds Policy

IG8. A government stores agency operates as a centralized purchasing agency and allows the public to purchase surplus supplies. It has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the sale of the supplies, which gives rise to a constructive obligation, because the conduct of the agency has created a valid expectation on the part of its customers that the agency will refund purchases.

An outflow of resources embodying economic benefits or service potential in settlement – Probable that a proportion of goods are returned for refund (see paragraph 32).

Conclusion

A provision is recognized for the best estimate of the costs of refunds (see paragraphs 18 (the definition of a constructive obligation), 22, 25, and 32).

Closure of a Division—No Implementation before Reporting Date

IG9. On 12 December 2004, a government decides to close down a division of a government agency. The decision was not communicated to any of those affected before the reporting date (December 31, 2004), and no other steps were taken to implement the decision.

Analysis

Present obligation as a result of a past obligating event – There has been no obligating event and so there is no obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 83).

Outsourcing of a Division—Implementation Before the Reporting Date

IG10. On December 12, 2004, a government decided to outsource a division of a government department. On December 20, 2004, a detailed plan for outsourcing the division was agreed by the government, and redundancy notices were sent to the staff of the division.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the communication of the decision to employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be outsourced.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized at December 31, 2004 for the best estimate of the costs of outsourcing the division (see paragraphs 22 and 83).

Legal Requirement to Fit Air Filters

IG11. Under new legislation, a local government entity is required to fit new air filters to its public buildings by 30 June 2005. The entity has not fitted the air filters.

Analysis

(a) At the reporting date of December 31, 2004

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting air filters or for fines under the legislation.

Conclusion

No provision is recognized for the cost of fitting the filters (see paragraphs 22 and 25–27).

Analysis

(b) At the reporting date of December 31, 2005

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting air filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliance of the public buildings).

An outflow of resources embodying economic benefits or service potential in settlement – Assessment of probability of incurring fines and penalties for non-compliance depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion

No provision is recognized for the costs of fitting air filters. However, a provision is recognized for the best estimate of any fines and penalties that are more likely than not to be imposed (see paragraphs 22 and 25–27).

Staff Retraining as a Result of Changes in the Income Tax System

IG12. The government introduces a number of changes to the income tax system. As a result of these changes, the taxation department (reporting entity) will need to retrain a large proportion of its administrative and compliance staff in order to ensure continued compliance with financial services regulation. At the reporting date, no retraining of staff has taken place.

Analysis

Present obligation as a result of a past obligating event – There is no obligation because no obligating event (retraining) has taken place.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

An Onerous Contract

IG13. [Deleted]

A Single Guarantee

IG14. [Deleted]

A Court Case

IG15. After a luncheon in 2004, ten people died, possibly as a result of food poisoning from products sold by a restaurant at a public museum (the reporting entity). Legal proceedings are started seeking damages from the entity, but it disputes liability. Up to the date of authorization of the financial statements for the year to December 31, 2004 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to December 31, 2005, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Analysis

(a) At December 31, 2004

Present obligation as a result of a past obligating event – On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion

No provision is recognized by the museum (see paragraphs 23 and 24). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraphs 100 and 109).

Analysis

(b) At December 31, 2005

Present obligation as a result of a past obligating event – On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the amount to settle the obligation (paragraphs 22–24 and 109).

Repairs and Maintenance

IG16. Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. IPSAS 45, *Property, Plant, and Equipment*, gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Refurbishment Costs—No Legislative Requirement

IG17. A furnace for heating a building that is leased out by a government department to a number of public sector tenants has a lining that needs to be replaced every five years for technical reasons. At the reporting date, the lining has been in use for three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

The cost of replacing the lining is not recognized because, at the reporting date, no obligation to replace the lining exists independently of the entity's future actions – even the intention to incur the expenditure depends on the entity deciding to continue operating the furnace or to replace the lining. Instead of a provision being recognized, the depreciation of the lining takes account of its consumption, that is, it is depreciated over five years. The re-lining costs then incurred are capitalized, with the consumption of each new lining shown by depreciation over the subsequent five years.

Refurbishment Costs—Legislative Requirement

IG18. A government cartography service is required by law to overhaul its aircraft used for aerial mapping once every three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

The costs of overhauling aircraft are not recognized as a provision for the same reasons as the cost of replacing the lining is not recognized as a provision in example of paragraph IG17. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the entity's future actions – the entity could avoid the future expenditure by its future actions, for example by selling the aircraft.

Disclosures

Two examples of the disclosures required by paragraph 98 are provided below.

Warranties

IG19. A government department with responsibility for the prevention of workplace accidents gives warranties at the time of sale to purchasers of its safety products. Under the terms of the warranty, the department undertakes to repair or replace items that fail to perform satisfactorily for two years from the date of sale. At the reporting date, a provision of 60,000 currency units has been recognized. The provision has not been discounted, as the effect of discounting is not material. The following information is disclosed:

A provision of 60,000 currency units has been recognized for expected warranty claims on products sold during the last three financial years. It is expected that the majority of this expenditure will be incurred in the next financial year, and all will be incurred within two years of the reporting date.

Decommissioning Costs

IG20. In 2005, a state-owned research facility, which uses a nuclear reactor to develop radio isotopes that are used for medical purposes, recognizes a provision for decommissioning costs of 300 million currency units. The provision is estimated using the assumption that decommissioning will take place in 60–70 years' time. However, there is a possibility that it will not take place until 100–110 years' time, in which case the present value of the costs will be significantly reduced. The following information is disclosed:

A provision of 300 million currency units has been recognized for decommissioning costs. These costs are expected to be incurred between 2065 and 2075; however, there is a possibility that decommissioning will not take place until 2105–2115. If the costs were measured based upon the expectation that they would not be incurred until 2105–2115 the provision would be reduced to 136 million. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 2%.

Disclosure Exemption

An example is given below of the disclosures required by paragraph 109 where some of the information required is not given because it can be expected to prejudice seriously the position of the entity.

IG21. A government research agency is involved in a dispute with a company, which is alleging that the research agency has infringed copyright in its use of genetic material, and is seeking damages of 100 million currency units. The research agency recognizes a provision for its best estimate of the obligation, but discloses none of the information required by paragraphs 97 and 98 of the Standard. The following information is disclosed:

Litigation is in process against the agency relating to a dispute with a company that alleges that the agency has infringed patents, and is seeking damages of 100 million currency units. The information usually required by IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, is not disclosed, on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The board is of the opinion that the claim can be successfully defended by the agency.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 19.

Measurement

Example 1: Present Value of a Provision

The following example illustrates the journal entries made on initial recognition of the present value of a provision, and the subsequent recognition of increases in the present value of that provision. The increase in the provision is recognized as an interest expense (paragraph 70).

IE1. The expected value of a provision at the end of year 5 is CU2000. This expected value has not been risk-adjusted. An appropriate discount rate that takes account of the risk associated with this cash flow has been estimated at 12%.

IE2. Journal entries to record the provision and changes in the value of the provision each year are as follows:

End of current reporting period

| | | |
|----|-----------|---------|
| DR | Expense | 1134.85 |
| CR | Provision | 1134.85 |

End of Year 1

| | | |
|----|------------------|--------|
| DR | Interest Expense | 136.18 |
| CR | Provision | 136.18 |

End of Year 2

| | | |
|----|------------------|--------|
| DR | Interest Expense | 152.52 |
| CR | Provision | 152.52 |

End of Year 3

| | | |
|----|------------------|--------|
| DR | Interest Expense | 170.83 |
| CR | Provision | 170.83 |

End of Year 4

| | | |
|----|------------------|--------|
| DR | Interest Expense | 191.33 |
| CR | Provision | 191.33 |

End of Year 5

| | | |
|----|------------------|--------|
| DR | Interest Expense | 214.29 |
| CR | Provision | 214.29 |

| Calculations: | Increase |
|--|-----------------|
| Current time: Present value = $2000/(1.12)^5 = 1134.85$ | |
| End of Year 1: Present value = $2000/(1.12)^4 = 1271.04$ | 136.18 |
| End of Year 2: Present value = $2000/(1.12)^3 = 1423.56$ | 152.52 |
| End of Year 3: Present value = $2000/(1.12)^2 = 1594.39$ | 170.83 |
| End of Year 4: Present value = $2000/(1.12)^1 = 1785.71$ | 191.33 |
| End of Year 5: Present value = $2000/(1.12)^0 = 2000.00$ | 214.29 |

Changes in Existing Decommissioning, Restoration and Similar Liabilities

IE3. Examples 2-4 illustrate how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities, as presented in Appendix B of IPSAS 19, and how to apply the transition requirements in paragraph 110B of IPSAS 19, using the following common facts:

An entity has a nuclear power plant held primarily for its financial capacity and a related decommissioning liability. The nuclear power plant started operating on January 1, 20X0. The plant has a useful life of 40 years. Its initial cost was CU120,000³; this included an amount for decommissioning costs of CU10,000, which represented CU70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on December 31.

Example 2: Historical Cost Model

IE4. On December 31, 20X9, the plant is 10 years old. Accumulated depreciation is CU30,000 (CU120,000 × 10/40 years). Because of the unwinding of discount (5 per cent) over the 10 years, the decommissioning liability has grown from CU10,000 to CU16,300.

IE5. On December 31, 20X9, the discount rate has not changed. However, the entity estimates that, as a result of technological advances, the net present value of the decommissioning liability has decreased by CU8,000. Accordingly, the entity adjusts the decommissioning liability from CU16,300 to CU8,300. On this date, the entity makes the following journal entry to reflect the change:

| | CU | CU |
|----------------------------------|-------|-------|
| Dr Decommissioning liability | 8,000 | |
| Cr Asset (historical cost model) | | 8,000 |

IE6. Following this adjustment, the carrying amount of the asset is CU82,000 (CU120,000 – CU8,000 – CU30,000), which will be depreciated over the remaining 30 years of the asset's life, giving a depreciation expense for the next year of CU2,733 (CU82,000 ÷ 30). The next year's finance cost for the unwinding of the discount will be CU415 (CU8,300 × 5 per cent).

IE7. If the change in the liability had resulted from a change in the discount rate, instead of a change in the estimated cash flows, the accounting for the change would have been the same but the next year's finance cost would have reflected the new discount rate.

³ In these examples, monetary amounts are denominated in 'currency units (CU)'.

Example 3: Current Value Model

- IE8. The entity adopts the current value model in IPSAS 45 whereby the plant is revalued with sufficient regularity that the carrying amount does not differ materially from fair value. The plant is primarily held for its financial capacity and is the only asset in its class. The entity's policy is to eliminate accumulated depreciation at the revaluation date against the gross carrying amount of the asset, in accordance with paragraph 31 of IPSAS 45.
- IE9. When accounting for revalued assets to which decommissioning liabilities attach, it is important to understand the basis of the valuation obtained. For example:
- (a) If an asset is valued using the income approach (e.g., discounted cash flows), some valuers may value the asset without deducting any allowance for decommissioning costs (a 'gross' valuation), whereas others may value the asset after deducting an allowance for decommissioning costs (a 'net' valuation), because an entity acquiring the asset will generally also assume the decommissioning obligation. For financial reporting purposes, the decommissioning obligation is recognized as a separate liability, and is not deducted from the asset. Accordingly, if the asset is valued on a net basis, it is necessary to adjust the valuation obtained by adding back the allowance for the liability, so that the liability is not counted twice.
 - (b) If an asset is valued using cost approach (e.g., depreciated replacement cost), the valuation obtained may not include an amount for the decommissioning component of the asset. If it does not, an appropriate amount will need to be added to the valuation to reflect the depreciated replacement cost of that component.
- IE10. Assume that a market-based discounted cash flow valuation of CU115,000 is obtained at December 31, 20X2. It includes an allowance of CU11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. The amounts included in the statement of financial position at December 31, 20X2 are therefore:

| | CU |
|---------------------------------|-----------------|
| Asset (current value model) (1) | 126,600 |
| Accumulated depreciation | nil |
| Decommissioning liability | <u>(11,600)</u> |
| Net assets | <u>115,000</u> |
| | |
| Accumulated surplus (2) | (10,600) |
| Revaluation surplus (3) | 15,600 |

Notes:

1. Valuation obtained of CU115,000 plus decommissioning costs of CU11,600, allowed for in the valuation but recognized as a separate liability = CU126,600.
2. Three years' depreciation on original cost CU120,000 \times 3/40 = CU9,000 plus cumulative discount on CU10,000 at 5 per cent compound = CU1,600; total CU10,600.
3. Revalued amount CU126,600 less previous net book value of CU111,000 (cost CU120,000 less accumulated depreciation CU9,000).

IE11. The depreciation expense for 20X3 is therefore CU3,420 (CU126,600 × 1/37) and the discount expense for 20X3 is CU600 (5 per cent of CU11,600). On December 31, 20X3, the decommissioning liability (before any adjustment) is CU12,200 and the discount rate has not changed. However, on that date, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by CU5,000. Accordingly, the entity adjusts the decommissioning liability from CU12,200 to CU7,200.

IE12. The whole of this adjustment is taken to revaluation surplus, because it does not exceed the carrying amount that would have been recognized had the asset been carried under the historical cost model. If it had done, the excess would have been taken to surplus or deficit in accordance with paragraph B6(b) of Appendix B of IPSAS 19. The entity makes the following journal entry to reflect the change:

| | CU | CU |
|------------------------------|-----------|-----------|
| Dr Decommissioning liability | 5,000 | |
| Cr Revaluation surplus | | 5,000 |

IE13. The entity decides that a full valuation of the asset is needed at December 31, 20X3, in order to ensure that the carrying amount does not differ materially from fair value. Suppose that the asset is now valued at CU107,000, which is net of an allowance of CU7,200 for the reduced decommissioning obligation that should be recognized as a separate liability. The valuation of the asset for financial reporting purposes, before deducting this allowance, is therefore CU114,200. The following additional journal entry is needed:

| | CU | CU |
|------------------------------------|-----------|-----------|
| Dr Accumulated depreciation (1) | 3,420 | |
| Cr Asset (current value model) | | 3,420 |
| Dr Revaluation surplus (2) | 8,980 | |
| Cr Asset (current value model) (3) | | 8,980 |

Notes:

1. Eliminating accumulated depreciation of CU3,420 in accordance with the entity's accounting policy.
2. The debit is to revaluation surplus because the deficit arising on the revaluation does not exceed the credit balance existing in the revaluation surplus in respect of the asset.
3. Previous valuation (before allowance for decommissioning costs) CU126,600, less cumulative depreciation of CU3,420, less new valuation (before allowance for decommissioning costs) CU114,200.

IE14. Following this valuation, the amounts included in the statement of financial position are:

| | CU |
|-----------------------------|----------------|
| Asset (current value model) | 114,200 |
| Accumulated depreciation | nil |
| Decommissioning liability | <u>(7,200)</u> |
| Net assets | <u>107,000</u> |
| | |
| Accumulated surplus (1) | (14,620) |

Revaluation surplus (2) 11,620

Notes:

1. CU10,600 at December 31, 20X2 plus 20X3's depreciation expense of CU3,420 and discount expense of CU600 = CU14,620.
2. CU15,600 at December 31, 20X2, plus CU5,000 arising on the decrease in the liability, less CU8,980 deficit on revaluation = CU11,620.

Example 4: Transition

IE15. The following example illustrates retrospective application of Appendix B of IPSAS 19 for preparers that already apply IPSAS, in accordance with paragraph 110B of IPSAS 19. Retrospective application is required by IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, where practicable. The example assumes that the entity:

- (a) Adopted IPSAS 19 on July 1, 20Y9;
- (b) Adopts Appendix B of IPSAS 19 on January 1, 20X5 (5.5 years later); and
- (c) Before the adoption of Appendix B of IPSAS 19, recognized changes in estimated cash flows to settle decommissioning liabilities as revenue or expense.

IE16. On December 31, 20X0, because of the unwinding of the discount (5 per cent) for one year, the decommissioning liability has grown from CU10,000 to CU10,500. In addition, based on recent facts, the entity estimates that the present value of the decommissioning liability has increased by CU1,500 and accordingly adjusts it from CU10,500 to CU12,000. In accordance with its former policy, the entity recognized the increase in the liability in surplus or deficit.

IE17. On January 1, 20X5, the entity makes the following journal entry to reflect the adoption of Appendix B of IPSAS 19:

| | CU | CU |
|----------------------------------|-------|-------|
| Dr Asset (historical cost model) | 1,500 | |
| Cr Accumulated depreciation | | 154 |
| Cr Opening accumulated surplus | | 1,346 |

IE18. The cost of the asset is adjusted to what it would have been if the increase in the estimated amount of decommissioning costs at December 31, 20X0 had been capitalized on that date. This additional cost would have been depreciated over 39 years. Hence, accumulated depreciation on that amount at December 31, 20X4 would be CU154 (CU1,500 × 4/39 years).

IE19. Because, before adopting Appendix B of IPSAS 19 on January 1, 20X5, the entity recognized changes in the decommissioning liability in surplus or deficit, the net adjustment of CU1,346 is recognized as a credit to the opening accumulated surplus. This credit is not required to be disclosed in the financial statements, because of the restatement described below.

IE20. IPSAS 3 requires the comparative financial statements to be restated and the adjustment to opening accumulated surplus at the start of the comparative period to be disclosed. The equivalent journal entries at January 1, 20X4 are shown below. In addition, depreciation expense for the year ended December 31, 20X4 is increased by CU39 from the amount previously reported:

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

| | CU | CU |
|----------------------------------|-----------|-----------|
| Dr Asset (historical cost model) | 1,500 | |
| Cr Accumulated depreciation | | 115 |
| Cr Opening accumulated surplus | | 1,385 |

COMPARISON WITH IAS 37

IPSAS 19 is drawn primarily from IAS 37 (1998). The main differences between IPSAS 19 and IAS 37 are as follows:

- IPSAS 19 includes commentary additional to that in IAS 37 to clarify the applicability of the standards to accounting by public sector entities. IPSAS 19 clarifies that it does not apply to social benefits within the scope of IPSAS 42, *Social Benefits*.
- Black letter in IAS 37 has been modified, and commentary additional to that in IAS 37 has been included in IPSAS 19 to clarify that, in the case of onerous contracts, it is the present obligation net of recoveries that is recognized as a provision.
- The scope paragraph in IPSAS 19 makes it clear that while provisions, contingent liabilities, and contingent assets arising from employee benefits are excluded from the scope of the Standard, the Standard, however, applies to provisions, contingent liabilities, and contingent assets arising from termination benefits that result from a restructuring dealt with in the Standard.
- IPSAS 19 uses different terminology, in certain instances, from IAS 37. The most significant examples are the use of the terms “revenue” and “statement of financial performance” in IPSAS 19. The equivalent terms in IAS 37 are “income” and “income statement.”
- IPSAS 19 contains the definitions of technical terms used in IAS 37, and an additional definition for “executory contracts.”
- IPSAS 19 provides additional guidance on *Collective and Individual Services*. It explains that public sector entities do not recognize a provision for “*Collective and Individual Services*.”
- IPSAS 19 includes authoritative text based on IFRIC Interpretations, whereas the IASB issues IFRICs as separate documents: Specifically, IPSAS 19 includes Appendix B, based on guidance in IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and Appendix C, based on guidance in IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*.
- The Implementation Guidance has been amended to be more reflective of the public sector.
- IPSAS 19 contains an Illustrated Example that illustrates the journal entries for recognition of the change in the value of a provision over time, due to the impact of the discount factor.