September 28, 2021

Mr. Ian Carruthers
Chairman,
International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Sub: Comment on Exposure Draft 80, *'Improvements to IPSAS, 2021'*

We are pleased to provide comments on the Exposure Draft 80, *'Improvements to IPSAS, 2021'* issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our comments on the Exposure Draft 80 are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

(CA. Dheeraj Khandelwal)
Chairman, Committee on Public &
Government Financial Management
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Encl.: As above

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Annexure

Draft Comments on Exposure Draft 80, '*Improvements to IPSAS, 2021*'

We disagree with the proposal of IPSASB of IFRS Alignment Improvements to IPSAS 17, '*Property, Plant, and Equipment*' that "*prohibits proceeds from selling items produced before asset is available for use to be deducted from the cost of property, plant, and equipment*". Although we don't have public sector specific reasons for disagreement but we have the following other reasons (including principle based) that are listed below:

1. The proposed amendment is inconsistent with the accounting treatment prescribed in other Standards. For example, under similar situation, IPSAS 5, *Borrowing Costs* requires an entity to capitalise eligible borrowing costs net of any investment income earned from investments of those borrowings (in case qualifying asset takes substantial period of time to get ready for their intended use) (paragraph 23 of IPSAS 5).

2. Paragraph 30(b) of IPSAS 17 prescribes to include "*any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management*" as an element of cost. However, the proposed amendment in example of directly attributable costs (paragraph 31(e)) is prescribing exception to the main principle (paragraph 30(b)) which does not seem appropriate principally.

3. Testing process is an essential step towards bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Moreover, the output which is produced during the testing process is not the same as produced in an entity's ordinary activities as it is non-recurring in nature. Therefore, recognising the same in surplus or deficit, i.e., in the similar manner as normal production is not appropriate. Recognising sale proceeds of item produced during testing phase in statement of income and expenditure will lead to recognition of abnormally large revenue which may mislead users of the financial statements in assessing the financial performance and position of the entity.

4. The clarification is also required regarding treatment of sales proceeds and related costs of abnormal waste produced during the testing process.

5. The proposed amendment in paragraph 31(e) requires "*assessment as to whether technical and physical performance of the asset is such that the asset is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes*". Further, the guidance is required to clarify the terms technical and physical performance of the asset and determine the difference between these.

In view of the above, we recommend that the existing provisions of IPSAS 17 need not be modified.

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