



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

October 27, 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 78, 'Property, Plant, and Equipment (PPE)'

We are pleased to provide comments on the Exposure Draft 78, 'Property, Plant, and Equipment (PPE)' issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our comments on the Exposure Draft 78 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)
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Government Financial Management
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Comments on Exposure Draft 78, 'Property, Plant, and Equipment (PPE)'

Specific Matter for Comment 1:

[Draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment* proposes improvements to the existing requirements in IPSAS 17, *Property, Plant, and Equipment* by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), *Measurement*; relocating guidance that supports the core principles in this Exposure Draft to the application guidance; and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of the Exposure Draft.

Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?

ICAI's views:

ED 77, *'Measurement'* covers the application guidance for the most commonly used measurement bases that are generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. Accordingly, we agree with the proposal of IPSASB to move generic measurement guidance to ED 77 and guidance supporting core principles (PPE specific) in application guidance to ED 78.

We also agree with the proposal of adding guidance for accounting for heritage assets and infrastructure assets within the scope of this ED 78 with a view that the special characteristics of heritage and infrastructure items do not prevent them from being considered as assets for the purposes of financial reporting.

Specific Matter for Comment 2—(paragraphs 29-30):

Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value?

If not, please provide your reasons, stating clearly which current value measurement basis would best address the needs of the users of the financial information, and why.

ICAI's views:

ED 77, *'Measurement'* prescribes the "current operational value", "cost of fulfillment" and "fair value" as current value measurement basis. It is noted that amongst others "cost of fulfillment" pertains mainly to liabilities only.



Under a current value model, assets held for their financial capacity are generally measured at fair value and assets held for their operational capacity are generally measured at current operational value. (paragraphs AG26 & 27)

In view of the above, we agree with the current value model (either at current operational value or fair value) as prescribed in ED 78.

Specific Matter for Comment 3—(paragraph AG3):

Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?

Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.

ICAI's views:

There can also be heritage assets with 'religious' significance, therefore, the term "religious" may specifically be considered for inclusion in paragraph AG2. In many jurisdictions, the term "religious" and "cultural" may have different connotations.

With regard to paragraph AG3, it is suggested that there may be restrictions on disposal of heritage assets, accordingly, paragraph AG3(a) may be considered to be modified and the following characteristic may be considered for inclusion:

"They are generally inherited or discovered".

It is to mention that ascertaining the true value of some heritage assets, especially those that have been inherited, is very complex.

However, keeping in view the benefits of recognising the heritage assets in the financial statements, it is suggested to record all heritage assets in the financial statements even in cases where it is not possible to assign relevant and verifiable monetary value. In that case, it is further suggested that the heritage PPE whose cost or current value cannot be measured reliably, the same may be considered to be prescribed to be measured and recorded at nominal value of one currency unit in which scenario, the issue of cost-benefit constraints would also not arise.

In a scenario, where any heritage asset is being used partially as heritage and partially in achieving the entity's objectives, e.g., as office buildings, although this ED 78 should apply ideally in that scenario if it meets the definition and recognition criteria of PPE but the clarification should be provided in the Standard with regard to their accounting.



Specific Matter for Comment 4—(paragraph AG5):

Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?

Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.

ICAI's views:

We suggest that the following characteristics of infrastructure assets as provided in existing IPSAS 17, PPE may be considered to be reproduced here in ED 78:

- They are specialised in nature and do not have alternative uses.
- They are immovable.
- They may be subject to constraints on disposal.

Most of the infrastructure assets that come under the purview of Public-Private-Partnership Arrangements, are accounted for in accordance with IPSAS 32, 'Service Concession Arrangements: Grantor' so these should be scoped out from this ED. Remaining infrastructure assets will be accounted for in accordance with this ED 78.

Specific Matter for Comment 5—(paragraphs 80-81 and AG44-AG45):

This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably.

Do you agree that such disclosure should be limited to heritage items?

If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.

ICAI's views:

As mentioned in our reply to specific matter for comment 3, heritage PPE whose cost or current value cannot be measured reliably, the same may be considered to be prescribed to be measured and recorded at nominal value of one currency unit.

It is further suggested that where heritage assets will be proposed to be measured at nominal value of one currency unit, the following illustrative extensive disclosures may be considered to be prescribed which may be in addition to those are provided in other existing IPSASB pronouncements:

- Reasons as to why the asset has been measured at nominal value of one currency unit.
- Where any subsequent expenditure has been capitalised for the assets recorded at nominal value of one currency unit, an additional disclosure may be required to indicate that the amount recorded in the Statement of Financial Position does not indicate the true value of that heritage asset. Expenditure subsequently capitalised in such cases should be disclosed separately



otherwise it may create an impression that the said cost represents the full value of the whole asset.

Specific Matter for Comment 6—(paragraphs IG1-IG40):

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets?

If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why.

ICAI's views:

We agree with the implementation guidance provided for heritage assets in this ED 78 subject to our reply on specific matter for comment 3.

Specific Matter for Comment 7—(paragraphs IG1-IG40):

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets?

If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on infrastructure assets are required, and why.

ICAI's views:

We agree with the implementation guidance provided for infrastructure assets in this ED 78.

However, it is suggested that the example prescribed in paragraphs IG4-IG5 may be considered to be modified/expanded. In the said example, legal ownership of land is held by another level of Government. However, State or Municipal Governments construct road networks on the said land and have the rights/ability to direct the use of the resource and obtain the future economic benefits or service potential from that road networks. In such scenario, roads network should be capitalised in the books of State or Municipal Governments. The same need to be considered to be covered appropriately in the example for more clarification. Similarly, example 1-Case B (page no. 126: illustrative examples section) need to be modified and conclusion also need to be mentioned clearly in whose books land and road networks to be recorded.

Other Comments

- Paragraph 8: The initial line "*The following terms are used in this Standard with the meanings specified.*" may be considered to be added in line with other already issued IPSASs before definitions.
- Paragraph 12 of ED 78 prescribes to initially measure the property, plant and equipment acquired through a non-exchange transactions at its deemed cost. However, the term "deemed cost" has not been defined in this Standard. It may be noted that the paragraph 9 of IPSAS 33,



'First-Time Adoption of Accrual basis IPSAS' defines "deemed cost" as an amount used for surrogate for acquisition cost or depreciated cost at a given date.

In addition, it is to mention that this ED do not provide any option of valuing the asset at nominal value of one currency unit in any case. Therefore, the measurement basis provided in this ED require reconsideration to be applied to the asset.

- Paragraph 19 & 74(b): We disagree with the proposal of IPSASB of recognising the proceeds from selling samples produced while testing the asset and the cost of those samples in surplus or deficit in statement of financial performance rather it should form part of the cost of PPE. Please refer our comments on ED 80, 'Improvements to IPSAS, 2021' on portion IFRS Alignment Improvements to IPSAS 17, 'Property, Plant, and Equipment', already submitted separately, copy enclosed for your ready reference as **Annexure A**.
- Paragraph 21: Some language modification is required instead of mentioning "for an item referred to in paragraph 12". It needs to clearly clarified here that only those PPE items that are acquired through a non-exchange transaction are being referred here.
- Paragraph 44: The term "value" may be replaced with "current value" for more clarification.
- Paragraph 87: This paragraph may be shifted either in the footnote in main standard or Application Guidance appropriately.
- Paragraph AG1: This paragraph pertaining to applicability of this ED on various types of assets should be moved in the main Standard under scope section.



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 [**Paragraph 15(b) of ED 78**] 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)] [**Paragraph 16(e) of ED 78**] 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. [**Paragraph 16(e) of ED 78**]

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