



Exposure Draft 77: Measurement

# **Response from the Public Accountants and Auditors Board (PAAB), Zimbabwe**

21 October 2021

The Public Accountants and Auditors Board (PAAB), Zimbabwe, was established by section 4 of the Public Accountants and Auditors Act, 1995 (as amended) (the Act). Public accountants (public auditors) are defined in the Act as any person registered by the PAAB to provide public accountancy services (public audit services) to any person, including a public company or statutory body. PAAB is the National Standards Setter in Zimbabwe responsible for endorsing and adopting international accounting standards, international standards on auditing and international public sector accounting standards when they meet certain criteria for prescription by statutory regulation by PAAB in accordance with section 44(2)(a) of the Act. PAAB is responsible for defining and enforcing ethical practice and discipline among registered public accountants and public auditors and setting Ethics standards (section 5(1)(d) of the Act); and representing the views of the accountancy profession on national, regional and international issues (section 5(1)(g) of the Act). PAAB also plays a role in accountancy-specific education (section 5(1)(h) of the Act).

Further information about PAAB can be obtained at [www.paab.org.zw](http://www.paab.org.zw)

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**ED 77 : Measurement**

PAAB is pleased to present its comments on this Exposure Draft, which have been reviewed by PAAB's Public Sector Accounting Standards Committee (PSASC).

**Response to Specific Matters for Comment**

Detailed comments on the Specific Matters for Comment are provided in the attached Annex.

We hope this is a helpful contribution to IPSASB's work in this area.

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## ED 77 : Measurement

**General Comment**

Whilst different stakeholders in our jurisdiction have welcomed the measurement standards, the concern is the impact it will have on those who are already migrating to IPSAS. This may disrupt the whole process as entities will need to reevaluate their implementation plans. Standards like IPSAS 17 which is also changing in its own right will be affected significantly by the standard.

Our recommendation with regards this matter is as follows :

- Prompt conclusion of the project – as long as this project remains outstanding most entities may adopt a wait and see attitude which could be detrimental to the IPSAS implementation projects.
- Longer implementation period before effective date – This will allow more time to consider the effects of the standards and plan accordingly for implementation.

**Specific Matter for Comment 1**

Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless: • That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes; or • Otherwise required or permitted by another IPSAS? If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

PAAB to a large extent does not supports the proposal but we recommend the following be considered:

Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. In the public sector most transactions are done at a price that do not reflect the true value of goods and services in the transactions i.e a greater percentage of the transaction in the public sector are entered at no consideration or less than market consideration. In those instances it will be important to recognise such transactions at fair value. By defaulting the measurement at initial recognition to

transaction price, may imply that transaction can be recorded at transaction price even in instances that price may not reflect economic reality. We have two alternative recommendations in dealing with the transaction price :

1. Consider removing the initial recognition measurement to be dealt with by the relevant standards. This is largely because the circumstances in which each asset is bought or liability assumed varies between the nature of the assets and liabilities. For example in PPE assets can be bought, donated, constructed, financed with debt (borrowing costs), assembled, purchased in foreign currency etc. It is therefore difficult for the standard in its current state to provide a relevant guidance as this can only be dealt with adequately with the current standard.

2. (Alternative) Our recommendation is that we revise the wording to :

“On the date an item qualifies for recognition, it shall be initially measured at a price that faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes. In some cases that price will be the transaction price or it could be the fair value of the asset or service exchanged.”

Defaulting the measurement of transactions at initial recognition in an “orderly transaction between market participants” works best in the private sector but in the public sector half the transaction are not in an orderly transaction between market participants. Government revenue, costs, financing is mostly not in an orderly transaction between market participants.

Specific Matter for Comment 2—(paragraph 17): Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model. If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

PAAB to a large extent supports the proposal but we recommend the following be considered to improve what drives the accounting policy choice in preparing and using financial statements:

- a. In line with our comment on SMC 1 on ED 76 our view is that a third model which is current cost should be included. We are of the view that current cost does not necessarily fit in historical costs or in current value. Value and Costs are different concepts which are driven from different perspective and including a cost driven measurement basis under current value may be misleading. Current cost may be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received for incurring or taking on an equivalent liability. Like historical cost, current cost provides information about the cost of an asset consumed or about income from the fulfilment of liabilities. Unlike historical cost, current cost reflects prices prevailing at the time of consumption or fulfilment. When price changes are significant, decisions based on current cost may be more useful for predicting future impact of those decisions than historical cost. Unlike current value which would consider an asset as a system with input and outputs thus captures intangibles, current cost may not necessarily be able to include intangibles which comes with operating an asset in a certain way but is more concerned with cost to replace or reconstruct the asset.

**Specific Matter for Comment 3:**

In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why

We agree to the proposal although they are written from the asset side and does not consider liabilities. It would then seem as if Historical cost were more prevalent in assets and not liabilities. Most financial liabilities are carried at amortised costs which is a historical cost.

**Specific Matter for Comment 4**

Specific Matter for Comment 4—Appendix A (paragraphs A1–A6): Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement? If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.

We agree to the proposal although there could be exceptions for example when translating the historical cost to another currency in line with IPSAS 4 The Effect of Foreign Exchange Rates or restating it in line with IPSAS 10 Financial Reporting in Hyperinflationary Economies

**Specific Matter for Comment 5**

Do you agree current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date? If not, please provide your reasons, stating clearly what principles more appropriate for the public sector, and why. The Exposure Draft includes an Alternative View on current operational value.

We agree to the proposal

#### **Specific Matter for Comment 6**

Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)? If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.

In line with our comment on SMC2, we are of the view that the current cost be considered as a third base rather than a measurement technique under operational value. The concept of cost and value need to be viewed differently. When we consider the value of an asset, in principle we look beyond an asset as more than just a random collection of assets but rather consider that in most instances there is a process that has inputs and outputs producing a system thus the operational value will be more than just the collection of groups of assets. Whereas when we look at current costs which uses mostly replacement costs, it is mostly based on what it would cost to replace the assets and would not take into account the intangibles that are created in the process when those assets work together in a system. An example is the operational value of the school – we would need to consider the intangible which include the market it serves, the teaching staff, courses taught etc whereas in replacement cost we may just consider how much it would cost to construct the school ignoring the intangibles.

#### **Specific Matter for Comment 7**

Do you agree the asset's current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used? If not, please provide your reasons, stating clearly why the asset should be measured at a different value.



We agree to the proposal although this should not be used to restrict assets that are generally mobile and are operated in more than one location. For example the government may have road construction equipment which is used in multiple locations over its economic life thus emphasis of location becomes irrelevant

#### **Specific Matter for Comment 8**

Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis? If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value. The Exposure Draft includes an Alternative View on current operational value.

We are in general agreement that in some cases income approach maybe used but in some cases it will not be possible for example the income approach will not be feasible to use in valuing a bridge which is constructed by the Local authority as there is no charge that is directly levied to use that bridge. Whilst the local authority charges rates which rates maybe used to maintain the bridge, these rates are not tied directly to the bridge as they encompass other services. However for a school which is owned but the same council and students pay fees which is below market and the school also receives grants from the council. The income approach can be used based on the current charges, incomes and expenses and the value will reflect current operational value rather than fair value as the inputs are based on fees and charges which are below market.

#### **Specific Matter for Comment 9**

Specific Matter for Comment 9—Appendix C (paragraphs C1–C89): In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on fair value has been aligned with IFRS 13, Fair Value Measurement (Appendix C: Fair Value). Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why.

We agree to that the guidance is appropriate for application by public sector entities

#### **Specific Matter for Comment 10**

**Specific Matter for Comment 10—Appendix D (paragraphs D1–D48):** In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on cost of fulfillment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfillment). Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why.

We agree to that the guidance is appropriate for application by public sector entities

**Specific Matter for Comment 11**

**Specific Matter for Comment 11:** Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77? If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why

We are of the view that there are disclosures which are mostly generic and should be included here. This allows consistency in requirement between the different standards and these will be guided by this standard. For example where an asset is measured based current operational value using income approach, the disclosures of assumptions are generic and could be specified in this standard

**Specific Matter for Comment 12**

**Specific Matter for Comment 12:** Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, Measurement? If yes, please provide your reasons, stating clearly what the disclosures are, and why.

Non noted

**Specific Matter for Comment 13**

Specific Matter for Comment 13: Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value. If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.

We are of the view that there are other disclosure requirements that will largely be driven by the specific asset you are valuing and others that will be generic to all standards. For example applying fair value model in valuation of inventory is largely going to be different in applying fair value model investment property or to a farm that is owned by the entity

**Specific Matter for Comment 14**

Specific Matter for Comment 14: Do you agree with the proposal disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSAS. If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model

We agree with the proposed disclosure requirements

**Specific Matter for Comment 15**

Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy? If not, please provide your reasons, stating clearly why disclosure requirements for inputs in the fair value hierarchy are unnecessary.

We agree with the proposed disclosure requirements