

Agenda Item 12.6

Marked-Up IPSASs and Summary of Main Changes

1. IPSAS 12 *Inventories*
2. IPSAS 13 *Leases*
3. IPSAS 14 *Events after Reporting Date*
4. IPSAS 17 *Property, Plant and Equipment*
5. IPSAS 16 *Investment Property*
6. IPSAS 1 *Presentation of Financial Statements*
7. IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*
8. IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Summary of Main Changes

IPSAS 12 *Inventories*

The main changes proposed are:

Objective and Scope

- to amend paragraphs 1 and 2 to clarify that the Standard applies to all inventories that are not specifically excluded from its scope. Previously, IPSAS12 applied to “accounting for inventories under the historical cost system”.
- to establish a clear distinction between those inventories (a) that are entirely outside of scope of the Standard; and (b) that are outside the scope of measurement requirements but within the scope of the other requirements in the Standard. Previously, IPSAS 12 did not make this distinction with respect to scope exemption. (see paragraphs 2 and 3)

Inventories that are not subject to the measurement requirements of the Standard are those held by:

- producers of agricultural and forest products, agricultural products after the harvest, and mineral and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries.
- commodity broker-traders who measure their inventories at fair value less costs to sell.

To qualify for the exemption from the measurement of the Standard, changes in the recognized amount of these inventories are to be included in surplus or deficit for the period.

Cost of Inventories

- not to permit exchange differences arising directly on the recent acquisitions of inventories invoiced in a foreign currency in previous paragraph 15 to be included in the cost of purchase of inventories. Previously, this was allowed under the allowed alternative treatment contained in IPSAS 4 *The effects of Changes in Foreign Exchange Rates*. This alternative treatment has also been eliminated in proposed IPSAS 4.
- to require in paragraph 27 that when inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of financing. Previously, IPSAS 12 did not contain this requirement.

Disclosures

- to require the following additional disclosure items:
 - the carrying amount of inventories carried at fair value less costs to sell.
 - the amount of inventories recognized as an expense during the period.
 - the amount of any write-down of inventories recognized as an expense in the period.
 Previously, IPSAS 12 did not contain disclosure requirement for these items.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 12

Inventories

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories ~~under the historical cost system~~. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides ~~practical~~ guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Pls note eliminating reference to "historical system" could be a problem for entities applying GFS.

Scope

- ~~12.~~ *An entity which prepares and presents financial statements under the accrual basis of accounting shall ~~should~~ apply this Standard in the context of the historical cost system in accounting for inventories other than: It applies to all inventories, except:*

- (a) *work in progress arising under construction contracts, including directly related service contracts (see International Public Sector Accounting Standard IPSAS 11 Construction Contracts);*
- (b) *financial instruments;*
- (c) *~~producers' inventories of livestock, agricultural and forest products, and mineral ores~~ biological assets related to agricultural activity and agricultural produce at the point of harvest to the extent that they are measured at fair value net realizable value in accordance with well established practices in certain industries any international or national accounting standard on agriculture that has been applied by the entity; and*
- (d) *work in progress of services to be provided for no or nominal consideration directly in return from the recipients.*

Pls note the amendment to subpara (c) is a consequent change on both the issue of IAS 41 and improved IAS 2.

3. This Standard does not apply to the measurement of inventories held by:

Pls note para 3 adds new requirement for recognition of changes in value of inventories.

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in surplus or deficit in the period of the change.

(b) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in surplus or deficit in the period of the change.

Para 4 was relocated to become current para 8.

~~4. The inventories referred to in paragraph 1(c) may be measured at net realizable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or mineral ores have been extracted and sale is assured under a forward contract or a government guarantee, or when an active a homogenous market exists and there is a negligible risk of failure to sell. These inventories are excluded from the scope of this Standard.~~

~~57. The inventories referred to in paragraph 42(d) are not encompassed by International Accounting Standard IAS 2, *Inventories* and are excluded from the scope of this Standard because they involve specific public sector issues that require further consideration.~~

~~8. The inventories referred to in paragraph 3(a) are measured at net realizable value at certain stage of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.~~

~~9. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the~~

near future and generating a surplus from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

Definitions

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Net Realizable Value

11. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Not realizable value for inventories may not equal fair value less costs to sell.

Measurement of Inventories

Cost of Inventories

The para was deleted due to the elimination of allowed alternative method in IPSAS 4. The same change was also made in IPSAS 4.

Costs of Purchase

~~15. The costs of purchase may include foreign exchange differences which arise directly on the recent acquisition of inventories invoiced in a foreign currency in the circumstances permitted in the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*. These exchange differences are limited to those resulting from a severe devaluation or depreciation of a currency against which there is no practical means of hedging and that affects liabilities which cannot be settled and which arise on the recent acquisition of the inventories.~~

Para 27 is a new requirement and consistent with IPSAS 16 and IPSAS 17 if in the same situation.

Other Costs

27. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element,

that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

Cost of Inventories of a Service Provider

2328.—To the extent that service providers have inventories except those referred to in paragraph 2(d), they measure them at the costs of production. ~~The~~ These costs of inventories of a service provider consists primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. The costs of labor not engaged in providing the service are not included. Labor and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of Agriculture Produce Harvested from Biological Assets

29. Inventories comprise agricultural produce that an entity has harvested from its biological assets and are measured on its initial recognition in accordance with any international or national accounting standard on agriculture that has been applied by the entity. This is the cost of the inventories at that date for application of this Standard.

Net Realizable Value

3541. A new assessment is made of net realizable value in each subsequent period. When the circumstances that ~~which~~ previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. This occurs, for example, when an item of inventory, which is carried at net realizable value because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Recognition as an Expense

- ~~3844.~~ The process of recognizing as an expense the carrying amount of inventories sold, exchanged or distributed results in the matching of costs and revenues. For a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

Disclosure

- ~~4046.~~ The financial statements shall ~~should~~ disclose:

- (a) *the accounting policies adopted in measuring inventories, including the cost formula used;*
- (b) *the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;*
- (c) *the carrying amount of inventories carried at fair value less costs to sell;*
- (d) *the amount of inventories recognized as an expense during the period;*
- (e) *the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 43;*
- ~~(e)(f)~~ *the amount of any reversal of any write-down that is recognized in the statement of financial performance in the period as a reduction in the amount of inventories recognized as expense in the period in accordance with paragraph 3743;*
- ~~(d)(g)~~ *the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 3743; and*
- ~~(e)(h)~~ *the carrying amount of inventories pledged as security for liabilities.*

- ~~42.~~ ~~The financial statements should disclose either:~~

- ~~(a) the cost of inventories recognized as an expense during the period; or~~
- ~~(b)(i) the operating costs applicable to revenues, recognized as an expense during the period, classified by their nature.~~

Subparas
(c),(d) and (e)
are new
disclosure
requirements
contained in
improved IAS
2.

4449. Some entities adopt a different format for the statement of financial performance, ~~which that~~ results in different amounts being disclosed ~~instead of~~ other than the cost of inventories recognized as an expense during the period. Under this ~~different~~ format, an entity ~~discloses~~ presents an analysis of expenses using a classification based on the nature of expenses.~~the amounts of operating costs applicable to revenues for the period, classified by their nature.~~ In this case, the entity discloses the costs recognized as an expense for raw materials and consumables, labor costs and other ~~operating~~ costs together with the amount of the net change in inventories for the period.

45. ~~A write-down to net realizable value may be of such size, incidence or nature to require disclosure under International Public Sector Accounting Standard IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.*~~

Summary of Main Changes

IPSAS 13 *Leases*

The main changes proposed are:

Scope

- to exclude from the scope in paragraph 2 the measurement for biological assets held by lessors and lessees. Previously, IPSAS 13 excludes the accounting for leases to explore for or use natural resource, such as timber. This is a consequent change on the issue of IAS 41 *Agriculture* rather than Improvement Project.

Definitions

- to define “initial direct costs” in paragraph 10 as “incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors”. Previously, IPSAS 13 did not contain this definition.
- to define “commencement of the lease term” in paragraph 10 as “the date from which the lessee is entitled to exercise its right to use the leased asset”. It is distinguished from the inception of the lease, which is defined as “the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provision of the lease”. The proposed IPSAS 13 now clarifies that recognition takes place at the commencement of the lease term based on values measured at the inception of the lease. If the lease is adjusted for changes in the lessor’s costs between the inception of the lease and the commencement of the lease term, the effect of any such changes is deemed to have taken place at the inception.

Previously, IPSAS 13 did not define “commencement of the lease” and implicitly assumed that commencement and inception are simultaneous.

Classification of Leases of Land and Building

- to require in paragraph 22 that an entity considers the land and buildings elements separately when classifying a lease of land and buildings. Normally, the land element is classified as an operating lease unless the title passes to the lessee at the end of the lease term. The buildings element is classified as an operating or finance lease by applying the classification criteria in the Standard. The minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interests in the land and buildings elements of the leases.

Previously, IPSAS 13 was not explicit about how to classify a lease of land and buildings and how to allocate the lease payment between them as well.

Initial Direct Costs incurred by Lessors

- to require lessors to include the initial direct costs incurred in negotiating a finance lease in the initial measurement of finance lease receivables. For operating leases, such initial direct costs are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease revenue. This treatment does not apply to manufacturer or trader lessors. Manufacturer or trader lessors recognize costs of this type as an expense when the gains or losses are recognized.

Previously, IPSAS 13 contained a choice on how to account for such costs---they might be either charged as an expense as incurred or allocated over the lease term and the choice of treatment applied to both operating and finance leases.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 13

Leases

Scope

12. *An entity which prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in accounting for all leases other than:*

Pls note the amendment to subpara (a) is a consequent change on the issue of IAS 41.

- (a) *~~leases agreements to explore for or use natural resources, such as minerals, oil, natural gas, timber, metals and other mineral rights~~ similar non-regenerative resources; and*
- (b) *licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.*

However, this Standard ~~should~~ shall not be applied to ~~as~~ the basis of measurement byfor:

- (a) *~~property held by lessees of that is accounted for as investment property held under finance leases (see International Public Sector Accounting Standard IPSAS 16 Investment Property); or~~*
- (b) *~~investment property provided by lessors of investment property leased out under operating leases (see International Public Sector Accounting Standard IPSAS 16 Investment Property).~~*
- (c) *biological assets held by lessees under finance leases (see any international and/or national accounting standard on agriculture that has been applied by the entity);*
- (d) *biological assets provided by lessors under operating leases (see any international and/or national accounting standard on agriculture that has been applied by the entity).*

Pls note the addition of subpara (c) and (d) is a consequent change on the issue of IAS 41.

45. *This Standard does not apply to leases ~~agreements~~ to explore for or use ~~natural resources such as minerals, oil, natural gas, timber, metals and other mineral rights~~ similar non-regenerative resources, and licensing agreements for such items as motion*

picture films, video recordings, plays, manuscripts, patents and copyrights. This is because these types of agreements have the potential to raise complex accounting issues which need to be addressed separately.

Para 7 was added because of the additional scope exclusion in para 2 (c) and (d).

7. This Standard does not apply to biological assets. biological assets are measured by lessors and lessees in accordance with any international and/or national accounting standard on agriculture that has been applied by the entity.

Definitions

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

This term was added by the IASB to distinguish commencement of the lease term from inception of the lease.

The Commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, revenue or expenses resulting from the lease, as appropriate).

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on a factor that changes other than just with the passage of time (e.g., percentage of sales, amount of future useage, future price indices, future market rates of interest).

Gross investment in the lease is the aggregate of:

- (a) the minimum lease payments receivable by the lessor under a finance lease, from the standpoint of the lessor and*
- (b) any unguaranteed residual value accruing to the lessor.*

Guaranteed residual value is:

- (a) in the case of for the a lessee, that part of the residual value which that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and*
- (b) in the case of for the a lessor, that part of the residual value which that is guaranteed by the lessee or by a third party unrelated to the lessor who that is financially capable of discharging the obligations under the guarantee.*

The inception of the lease is the earlier of the date of the lease agreement ~~or~~ and the date of a commitment by the parties to the principal provisions of the lease. At this date:

- (a) a lease is classified as either an operating or a finance lease; and*
- (b) in the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.*

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of:

- (a) the minimum lease payments; and*
- (b) the unguaranteed residual value*

to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.

Initial direct cost is a new term defined by the IASB.

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.

Minimum lease payments are the payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:

- (a) ~~in the case of the~~ for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or*
- (b) ~~in the case of the~~ for a lessor, any residual value guaranteed to the lessor by ~~either~~:*
 - (i) the lessee;*
 - (ii) a party related to the lessee; or*
 - (iii) ~~an a~~ independent third party that is financially capable of ~~meeting this~~ discharging the obligation under the guarantee.*

However, if the lessee has an option to purchase the asset at a price ~~which~~ that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, so that at the inception of the lease, ~~that the option is reasonably certain to~~ will be exercised, the

minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it this purchase option.

Net investment in the lease is the gross investment in the lease ~~less unearned finance revenue~~ discounted at the interest rate implicit in the lease.

Unearned finance revenue is the difference between:

- (a) the gross investment in the lease ~~aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor;~~ and*
- (b) the net investment in the lease ~~present value of (a) above, at the interest rate implicit in the lease.~~*

Useful life is the estimated remaining period, from the beginning commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.

Provision to Adjust the Lease Payments

This para was added in IAS 17 because of the distinction between inception of lease and commencement of the lease term.

11. A lease agreement or commitment may include a provision to adjust the lease payments for changes in the construction or acquisition cost of the leased property or for changes in some other measure of cost or value, such as general price levels, or in the lessor's costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Standard.

Classification of Leases

Previously, this para was in plain text. Now it is in black letter per IASB's change.

11. *A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.*
12. ~~16.~~ *Since Because the transaction between a lessor and a lessee is based on a lease agreement between them ~~common to both parties~~, it is appropriate to use consistent definitions. The*

application of these definitions to the differing circumstances of the ~~two parties~~ lessor and lessee may ~~sometimes~~ result in the same lease being classified differently by ~~lessor and lessee~~ them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.

19. The examples and indicators in paragraphs 15 and 16 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to the ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards.

4621. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A premium paid for payment made on such entering into or acquiring a leasehold that is accounted for as an operating lease represents pre-paid lease payments which that are amortized over the lease term in accordance with the pattern of benefits provided.

22. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, whether analyzed as one lease or as two leases, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 21. The buildings element is classified as a finance or operating lease in accordance with paragraphs 14-20.

Paras 22-26
were added to
specify how to
classify a lease
of land and
buildings.

23. Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land

and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

24. For a lease of land and buildings in which the amount that would initially be recognized for the land element, in accordance with paragraph 30, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs 14-20. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

25. Separate measurement of the land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with IPSAS 16 *Investment Property* and the fair value model is adopted. Detailed calculations are required for this assessment only if the classification of one or both elements is otherwise uncertain.

26. In accordance with IPSAS 16, it is possible for a lessee to classify a property interest held under an operating lease as an investment property. If it does, the property interest is accounted for as if it were a finance lease and, in addition, the fair value model is used for the asset recognized. The lessee shall continue to account for the lease as a finance lease, even if a subsequent event changes the nature of the lessee's property interest so that it is no longer classified as investment property. This will be the case if, for example, the lessee:

- (a) occupies the property, which is then transferred to owner-occupied property at a deemed cost equal to its fair value at the date of change in use; or
- (b) grants a sublease that transfers substantially all of the risks and rewards incidental to ownership of the interest to an unrelated third party. Such a sublease is accounted for by the lessee as a finance lease to the third party, although it may be accounted for as an operating lease by the third party.

The
requirement
s in para 26
are also in
IPSAS 16.

Leases in the Financial Statements of Lessees

Finance Leases

Initial Recognition

~~20~~30. *At the commencement of the lease term, Lessees ~~should~~ shall recognize assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position. The assets and liabilities ~~should~~ shall be recognized at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. In calculating the present value of the minimum lease payments the discount factor rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used. Any initial direct costs of the lessee are added to the amount recognized as an asset.*

~~21~~31. Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. ~~While~~ Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, ~~to the fair value of the asset and the related finance charge.~~

~~22~~32. If such lease transactions are not reflected in the lessee's financial statements, the assets and liabilities of an entity are understated, thereby distorting financial ratios. Therefore, it is therefore appropriate that for a finance lease to be recognized in the lessee's financial statements both as an asset and as an obligation to pay future lease payments. At the inception commencement of the lease term, the asset and the liability for the future lease payments are recognized in the financial statements at the same amounts except for any initial direct costs of the lessee that are added to the amount recognized as an asset.

Subsequent Measurement

2636. *Minimum Lease payments should shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should shall be allocated to each periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Contingent rents shall be charged as expenses in the periods in which they are incurred.*

3242. *Lessees should shall make the following disclosures for finance leases:*

(c) *contingent rents recognized in the statement of financial performance for as an expense in the period;*

(d) *the total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date;* and

(e) *a general description of the lessee's significant material leasing arrangements including, but not limited to, the following:*

(i) *the basis on which contingent rent payments payable are is determined;*

3343. In addition, the disclosure requirements of IPSAS 16, IPSAS 17 and any international and/or national accounting standard on intangible assets, biological assets and on impairment of assets which have been adopted by the entity ~~should~~ shall be applied to ~~the amounts of leased assets lessees under finance leases that are accounted for by the lessee as acquisitions of assets.~~

Leases in the Financial Statements of**Lessor****Finance Leases****Initial Recognition**

52. Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other

Current para 52 was relocated from original para 45 with amendments to clarify that initial direct cost incurred under finance lease are included in the initial measurement of finance lease receivable except where incurred by manufacturer or trader lessors.

than those involving manufacturer or trader lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are recognized as an expense when the gain or loss resulting from the sale is recognized, which for a finance lease is normally at the commencement of the lease term.

Subsequent Measurement

Original para 45 was relocated to current para 52 with amendments.

45. ~~Initial direct costs, such as commissions and legal fees, are often incurred by lessors in negotiating and arranging a lease. For finance leases, these initial direct costs are incurred to produce finance revenue and are either recognized immediately as an expense or allocated against revenue over the lease term.~~

4757. *If artificially low rates of interest are quoted, any gains or losses on sale of assets ~~should~~ shall be restricted to those which would apply if a commercial rate of interest were charged. ~~Initial direct e~~Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease ~~should~~ shall be recognized as an expense in the statement of financial performance at the inception of the lease when the gain or loss is recognized.*

5161. ~~Initial direct e~~Costs incurred by a manufacturer or trader lessor in connection with negotiating and arranging a finance lease are recognized as an expense at the commencement of the lease term because they are mainly related to earning the manufacturer's or trader's gain or loss on sale.

Staff use "revenue" to replace "income" used by IASB regarding the contingent rent.

5262. *~~Lessors ~~should~~ shall make disclose the following disclosures for finance leases:~~*

(e) ~~contingent rents recognized in the statement of financial performance as revenue in the period; and.~~

(f) a general description of the lessor's ~~significant~~ material leasing arrangements.

Operating Leases

Original para
57 was in
plain text.
Now it is in
black letter in
accordance
with IAS 17.

~~57~~67. *Initial direct costs incurred by lessors in negotiating and arranging specifically to earn revenues from an operating lease ~~are either deferred~~ shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease revenue ~~in proportion to the recognition of rent revenue, or recognized as an expense in the statement of financial performance in the period in which they are incurred.~~*

~~61~~71. *Lessors ~~should~~ shall make disclose the following disclosures for operating leases:*

- (b) total contingent rents recognized ~~in the statement of financial performance as revenue in the period;~~ and*
- (c) a general description of the lessor's ~~significant~~ leasing arrangements.*

Transitional Provisions

~~71~~81. *All provisions of this Standard ~~should~~ shall be applied from the date of first adoption, except in relation to leased assets which have not been recognized as a result of transitional provisions under another International Public Sector Accounting Standard. The provisions of this Standard would not be required to apply to such assets until the transitional provision in the other International Public Sector Accounting Standard expires. In no case ~~should~~ shall the existence of transitional provisions in other Standards preclude the full application of this Standard for a period exceeding five years after the date of first adoption of this Standard.*

~~73~~83. *Subject to paragraph 85, ~~R~~retrospective application of this Standard by entities that have already adopted the accrual basis of accounting and which intend to comply with International Public Sector Accounting Standards as they are issued is encouraged but not required. If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor and ~~should~~ shall be accounted for thereafter in accordance with the provisions of this Standard.*

~~74~~84. *Entities that have already adopted the accrual basis of accounting and ~~which~~ that intend to comply with International*

Public Sector Accounting Standards as they are issued, may have pre-existing finance leases ~~which~~ that have been recognized as assets and liabilities in the statement of financial position. Retrospective application of this Standard to existing finance leases is encouraged. Retrospective application could lead to the restatement of such assets and liabilities. Such assets and liabilities are required to be restated only if the Standard is applied retrospectively.

- 85. An entity has previously applied International Public Sector Accounting Standard IPSAS 13 Leases shall apply the amendments made by this Standard retrospectively for all leases or, if IPSAS 13 was not applied retrospectively, for all leases entered into since it first applied that Standard.**

Appendix 5 - Calculating the Interest Rate Implicit in a Finance Lease

Example

Department X enters into an agreement to acquire a motor vehicle on a finance lease. The fair value of the motor vehicle at the inception of the lease is 25,000 currency units, the annual lease payments are 5,429 currency units payable in arrears, the lease term is four years, and the guaranteed residual value is 10,000 currency units. Assume that the lessor to this agreement does not incur any initial direct costs in negotiating and arranging the lease. –The lease agreement does not provide any services additional to the supply of the motor vehicle. Department X is responsible for all the running costs of the vehicle including insurance, fuel and maintenance. The lease agreement does not specify the interest rate implicit in the lease. The Department's incremental borrowing rate is 7% per annum. Several financial institutions are advertising loans secured by motor vehicles at rates varying between 7.5% and 10%.

Trial and Error Method

The calculation is an iterative process – that is, the lessee must make a “best guess” of the interest rate and calculate the present value of the minimum lease payments and compare the result to the fair value of the leased asset at the inception of the lease. If the result is less than the fair value, the interest rate selected was too high, if the result is greater than the fair value, the interest rate selected was too low. The interest rate implicit in a lease is the rate used when the present value of the minimum lease payments is equal to the fair value of the leased asset and any initial direct costs of the lessor, which are assumed to be zero, at the inception of the lease.

Summary of Main Changes

IPSAS 14 *Events after the Reporting Date*

The main changes proposed are:

Dividends/Distributions Declared after the Reporting Date

- to clarify in paragraph 17 that dividends or similar distributions declared after the reporting date are disclosed in the notes in accordance with IPSAS 1 *Presentation of Financial Statements*. Previously, IPSAS 14 stated that an entity could make the disclosure of such distribution after the reporting date either on the face of the statement of financial position as a separate component of net assets/equity or in the notes to the financial statements.

Transitional Provisions: First-time Adoption Relief

- to include in paragraph 33 the same relief for first time adoption as in IFRS 1 *First-time Adoption of International Financial Reporting Standards* with respect to the events incurred after the reporting date as follows:

An entity may receive information after the first adoption of IPSASs about estimates that it had made under previous GAAP. An entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting date under this Standard, unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 14

Events After the Reporting Date

Recognition and Measurement

Adjusting Events After the Reporting Date

~~10~~12. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

- (a) the settlement resolution after the reporting date of a court case ~~that which, because it confirms that an entity already had a present obligation at the reporting date, requires it~~ The entity ~~to~~ adjusts a ~~any previously recognized provision already recognized, related to this court case in accordance with IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets or to~~ recognizes a new provision. The entity does not instead of merely disclosing a contingent liability because the settlement provides additional evidence that would be considered in accordance with. ~~Guidance on accounting for provisions and contingent liabilities is found in Accounting Standards on paragraph 24 in IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets[†];~~

Non-Adjusting Events After the Reporting Date

Dividends/Distributions

~~13~~15. If an entity declares dividends or similar distributions ~~are proposed or declared after the reporting date, an~~the entity

[†] The Committee has published ED-21 *Provisions, Contingent Liabilities and Contingent Assets* which deals with the application of IAS 37 to the public sector. International Public Sector Accounting Standard IPSAS 1 Presentation of Financial Statements also includes requirements for the presentation of items in the financial statements and notes to the financial statements, including provisions, contingent liabilities and contingent assets.

~~*should*~~*shall* *not recognize those distributions as a liability at the reporting date.*

1517. ~~If International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements* requires an entity to disclose the amount of dividends or similar distributions to owners are that were proposed or declared (ie the dividends or similar distributions are appropriately authorized and no longer at the discretion of the entity) after the reporting date but before the financial statements are ~~were~~ authorized for issue, the dividends are not recognized as a liability in the period covered by the financial statements because they do not meet the criteria of a present obligation in IPSAS 19. Such dividends or similar distributions are disclosed in the notes to the financial statements in accordance with International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements*. Dividends and similar distributions do not include a return of capital.—IPSAS 1 permits an entity to make this disclosure either:~~

- (a) ~~on the face of the statement of financial position as a separate component of net assets/equity; or~~
- (b) ~~in the notes to the financial statements.~~

Disclosure

Disclosure of Non-Adjusting Events After the Reporting Date

2931. ~~If Where non-adjusting events after the reporting date are material of such importance that, non-disclosure would influence the economic decisions of users taken on the basis of the financial statements affect the ability of the users of the financial statements to make proper evaluations and decisions,~~ Accordingly, an entity shall ~~should~~ *disclose the following information for each material significant category of non-adjusting event after the reporting date:*

- (a) *the nature of the event; and*
- (b) *an estimate of its financial effect, or a statement that such an estimate cannot be made.*

Transitional Provisions

This section was added for giving the same relief as in IASB's first time adoption of IFRS as per discussion at Berlin

33. An entity may receive information after the first adoption of IPSASs about estimates that it had made under previous GAAP. An entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting date under this Standard, unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error. For example, assume that an entity's first adoption date of IPSASs is 1 January 2010 and new information on 15 July 2010 requires the revision of an estimate made under previous GAAP at 31 December 2009. The entity shall not reflect that new information in its first set of financial statements prepared in accordance with IPSASs (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in its statement of financial performance (or, if appropriate, other changes in net asset) for the year ended 31 December 2010.

Summary of Main Changes

IPSAS 17 *Property, Plant and Equipment*

The main changes proposed are:

Scope

- to replace “forests and similar regenerative natural resources” in paragraph 5 (a) with words “biological assets related to agriculture activity”. This is a consequent change on the issue of IAS 41 Agriculture rather than Improvement Project.

Definitions

In paragraph 14:

- to define the term “entity-specific value”, which refers to “the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability. This term was defined by IASB and used to determine whether an asset exchange transaction has commercial substance. Previously, IPSAS 17 did not contain this definition.
- to define terms “carrying amount”, “impairment loss of a cash-generating asset”, “impairment loss of a non-cash-generating asset”, “recoverable amount” and “recoverable service amount” due to the issuance of ED 23. Previously, IPSAS 17 did not contain those definitions.
- to amend the definition of “residual value”. The amended definition of residual value would require an entity to use the amount that can be currently obtained from the disposal of the asset assuming that the asset was already of the age and in the condition expected at the end of its useful life. Previous definition in IPSAS 17 did not clarify that residual value is a current amount.

Recognition

- to require an entity to apply the general asset recognition principle to all property, plant and equipment costs at the time they are incurred, including initial costs and subsequent expenditures.(see paragraphs 15, 20, 23, 25-26) Previously, IPSAS 17 contained two recognition principles, which one applies to initial costs while another applies to subsequent expenditures.
- to clarify in paragraph 24 that the cost of day-to-day servicing of property, plant and equipment are recognized in surplus or deficit. Previously, IPSAS 17 did not make this point very clear.

Measurement at Recognition

- to require an entity to include asset dismantlement, removal and restoration costs as an element of cost of an item of property, plant and equipment in paragraph 31. Previously, IPSAS 17 provided that when initially measuring an item of property, plant and equipment at its cost, an entity would include the cost of dismantling and removing that item and restoring the site on which it is located to the extent it had recognized a provision for that cost.
- to require an entity to recognize all asset exchange transactions at fair value unless the transactions lack commercial substances or the fair value of neither the asset given up nor

the asset received can be reliably measured. The proposed IPSAS 17 also provides guidance on how to judge whether an asset exchange transaction has commercial substance.(see paragraphs 39-41) Previously, IPSAS 17 divided asset exchange transactions into exchanges between similar assets and exchanges between dissimilar assets, and subject to different treatments. For similar asset exchanges, it required that the cost of the asset received is the carrying amount of the asset given up. For dissimilar asset exchanges, its cost is the fair value of the asset given up adjusted by the amount of any cash or cash equivalent transferred.

Depreciation

- to require an entity to determine the depreciation charge separately for each significant part of an item of property, plant and equipment.(see paragraphs 60-64) Previously, IPSAS 17 did not make this clear.
- to require an entity to measure the residual value of an item of property, plant and equipment as the amount it estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life in paragraph 70. The definition of residual value has also been amended in paragraph 14. Previously, this was not clearly specified in IPSAS 17.
- to require an entity to begin depreciating an item of property, plant and equipment when it is available for use and to continue depreciating it until it is derecognized, even if during that period the item is idle in paragraph 72. Previously, IPSAS 17 did not specify when depreciation of an item began. It also specified that an entity should cease depreciating an item that it had retired from active use and was holding for disposal.

Compensation for Impairments

- to require an entity to include in surplus or deficit compensation from third parties for items of property, plant and equipment that were impaired, lost or given up when the compensation becomes receivable.(see paragraphs 82-83) Previously, IPSAS 17 did not contain those requirements.

Derecognition

- to require an entity to derecognize the carrying amount of an item of property, plant and equipment that it disposes of on the date the criteria for the sale of goods in IPSAS 9 *Revenue for Exchange Transactions* are met.(see paragraph 86) Previously, IPSAS 17 did not require an entity to use those criteria contained in IPSAS 9 to determine the date on which it derecognized the carrying amount of a disposed item of property, plant and equipment. Rather, the recognition criteria in previous IPSAS 17 might lead to the conclusion that an entity will recognize a deferred gain, which does not meet the definition of a liability under existing IPSASs.
- to require an entity to derecognize the carrying amount of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of replacement in the carrying amount of the item in paragraph 87. Previously, IPSAS 17 did not extend its derecognition principle to replaced parts; rather, its recognition principle for subsequent expenditures effectively preclude the cost of a replacement from being included in the carrying amount of the item.

IFAC
Public
Sector
Committee

Issued ~~DecemberX 2001~~200X

IPSAS 17

Property, Plant and Equipment

International Public Sector
Accounting Standard

Issued by
the International
Federation of
Accountants



This Standard was approved by the Public Sector Committee of the International Federation of Accountants.

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 16 (Revised ~~1998~~2003), *Property, Plant and Equipment* published by the International Accounting Standards CommitteeBoards (IASB). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the International Accounting Standards Committee (IASC). The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB. Extracts from IAS 16 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of the IASB.

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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing ~~a set of~~ recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs ~~will~~ play a key role in enabling these benefits to be realized.

The revision to the introduction was consistent with the latest version in ED 23.

The IPSASs are based on the International Financial Reporting Standards, formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-setters to establish accounting standards and guidelines ~~and accounting standards~~ for financial reporting ~~by the public sector~~ in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

~~The objective of the current phase of the Committee's workplan is to develop IPSASs based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee and extant at 31 August 1997, or their subsequently revised versions. Some accounting issues in the public sector are not fully addressed in the IASs. Although these issues are not included in the brief of the current phase of the Committee's workplan, it is cognizant of the importance of these issues and expects to address them once it has issued its initial set of Standards.~~

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International Public Sector Accounting Standard IPSAS 17

Property, Plant and Equipment

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 17

As part of
PSC's due
process.
Staff did
not change
this para
per IASB's
changes.
Pls refer to
the
covering
memo.

Property, Plant and Equipment

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

- 1.** The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the ~~timing of~~ recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.

Staff are
concerned
about the
applicabilit
y of the
word
"investment
" used by
IASB to
public
sector.

Scope

- 12.** An entity ~~which~~that prepares and presents financial statements under the accrual basis of accounting ~~shall~~ ~~should~~ apply this Standard in accounting for property, plant and equipment, except:
- (a) *when a different accounting treatment has been adopted in accordance with another International Public Sector Accounting Standard; and*
 - (b) *in respect of heritage assets. However, the disclosure requirements of paragraphs 7387, 7488 and 7791 apply to those heritage assets that are recognized.*
- 23.** *This Standard applies to all public sector entities other than Government Business Enterprises.*
- 34.** This Standard applies to property, plant and equipment including:
- (a) specialist military equipment; and

- (b) infrastructure assets.

The transitional provisions in paragraphs ~~8094~~ to ~~87101~~ provide relief from the requirement to recognize all property, plant and equipment during the five year transitional period.

45. This Standard does not apply to:

Having regarded the proposed change to subpara (a) consequent on issue of IAS 41 is not substantial. Staff made it consistent with IAS 16.

- (a) ~~forests and similar regenerative natural resources biological assets related to agriculture activity~~; and
- (b) mineral rights, ~~the exploration for and extraction of minerals~~, and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard ~~does apply~~ applies to property, plant and equipment used to develop or maintain the ~~activities or assets covered described in 45(a) or and 45(b) but which are separable from those activities or assets.~~

56. ~~This Standard also does not apply where~~ Other International Public Sector Accounting Standards or, in the absence of an International Public Sector Accounting Standard, other relevant international guidance, may permits require the initial recognition of the carrying amount an item of property, plant and equipment to be determined using based on an approach different from that prescribed in this Standard. For example, International Accounting Standard IAS 22, Business Combinations provides guidance on valuing property, plant and equipment when it is acquired in a business combination IPSAS 13 Leases requires an entity to evaluate its recognition of an item of property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases ~~all~~ other aspects of the accounting treatment for these assets, including depreciation, are ~~determined~~ prescribed by ~~the requirements of~~ this Standard.

6. ~~This Standard does not deal with certain aspects of the application of a comprehensive system reflecting the effects of changing prices (see International Public Sector Accounting Standard IPSAS 10 Financial Reporting in Hyperinflationary Economies). However, entities applying such a system are required to comply with all aspects of this Standard, except for those that deal with the measurement of property, plant and equipment subsequent to its initial recognition.~~

7. An entity shall apply this Standard to property that is being constructed or developed for future use as investment property

but does not yet satisfy the definition of “investment property” in IPSAS 16 *Investment Property*. Once the construction or development is complete, the property becomes investment property and the entity is required to apply IPSAS 16. IPSAS 16 also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with IPSAS 16 shall use the cost model in this Standard.

Heritage Assets

78. This Standard does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

89. Some assets are described as “heritage assets” because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- (a) their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
- (b) legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
- (c) they are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and
- (d) it may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

910. Some heritage assets have service potential other than their heritage value, for example, an historic building being used for

office accommodation. In these cases, they may be recognized and measured on the same basis as other items of property, plant and equipment. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

~~10~~11. The disclosure requirements in paragraphs ~~73~~90 to ~~79~~96 require entities to make disclosures about recognized assets. Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example:

- (a) the measurement basis used;
- (b) the depreciation method used, if any;
- (c) the gross carrying amount;
- (d) the accumulated depreciation at the end of the period, if any; and
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Government Business Enterprises

~~11~~12. The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in IIPSAS 1 *Presentation of Financial Statements*. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.

The revision to para 12 and addition of para 13 were to keep consistent with its latest version in ED 23.

13. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

Definitions

1214. *The following terms are used in this Standard with the meanings specified:*

Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Class of property, plant and equipment means a grouping of assets of a similar nature or function in an entity's operations, that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost ~~in the financial statements~~, less its residual value.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of the asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of the asset exceeds its recoverable service amount.

Property, plant and equipment are tangible ~~assets~~ items that:

- (a) are held ~~by an entity~~ for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

Entity-specific value is a new term added by IASB due to the change in measurement of asset exchange transactions.

“Impairment loss” defined by IASB was replaced by two terms due to the applicability to public sector. “Impairment loss of a non-cash-generating assets” is defined in ED 23.

- (b) *are expected to be used during more than one reporting period.*

“Recoverable service amount” is defined in ED 23

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset’s net selling price and its value in use.

The ~~R~~residual value of an asset is the ~~net~~ estimated amount ~~which that the an~~ entity ~~expects to~~ would currently obtain for ~~an~~ from disposal of the asset, ~~at the end of its useful life~~ after deducting the ~~expected~~ estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is either:

- (a) *the period ~~of time~~ over which an asset is expected to be available for used by ~~the an~~ entity; or*
- (b) *the number of production or similar units expected to be obtained from the asset by ~~the an~~ entity.*

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

Recognition of Property, Plant and Equipment

Pls note recognition principle in para 15 applies to both initial costs and subsequent costs as per IASB’s change.

~~13~~15. *The cost or fair value of ~~A~~an item of property, plant and equipment shall ~~should~~ be recognized as an asset ~~whenif, and~~ only if:*

- (a) *it is probable that future economic benefits or service potential associated with the ~~asse~~ item will flow to the entity; and*
- (b) *the cost or fair value of the ~~asset~~ item ~~to the entity~~ can be measured reliably.*

~~14.~~ *Property, plant and equipment is often a major portion of the total assets of an entity, and therefore is significant in the presentation of its financial position. Furthermore, the determination of whether an expenditure represents an asset or*

~~an expense can have a significant effect on an entity's reported surplus or deficit from operating activities.~~

- ~~15~~16. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be canceled without significant penalty and, therefore, the asset is not recognized.

Paras 16, 17 were removed by IASB. Staff still contained them because of lack of framework in IPSASs.

- ~~16~~17. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. In the case of a self-constructed asset, a relevant and reliable measurement of the cost can be made from the transactions with parties external to the entity for the acquisition of the materials, labor and other inputs used during the construction process. In addition, as outlined in paragraphs 22 to 25 of this Standard, under certain circumstances cost is determined by reference to fair value.

The first part of this para was relocated to current para 19 with minor changes.

- ~~17~~18. ~~In identifying what constitutes a separate item of property, plant and equipment, judgment is required in applying the criteria in the definition to specific circumstances or specific types of entities. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value. Most s~~Spare parts and servicing equipment are usually carried as inventory and recognized ~~as an expense in surplus or deficit~~ as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when ~~the an~~ entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment ~~and their use is expected to be irregular~~, they are accounted for as property, plant and equipment ~~and are depreciated over a time period not exceeding the useful life of the related asset.~~

Para 18 was relocated to current "Depreciation" section and covered in paras 60 to 64 with many additional contents.

~~18. In certain circumstances, it is appropriate to allocate the total expenditure on an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide economic benefits or service potential to the entity in a different pattern, thus necessitating use of different depreciation rates and methods. For example, the pavements, formation, curbs and channels, footpaths, bridges and lighting may need to be treated as separate items within a road system to the extent that they have different useful lives. Similarly, an aircraft body and its engines need to be treated as separate depreciable assets if they have different useful lives.~~

Para 19 was relocated to current para 23 with minor changes.

~~19. Property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, while not directly increasing the future economic benefits or service potential of any particular existing asset, may be necessary in order for the entity to obtain the future economic benefits or service potential from its other assets. When this is the case, such acquisitions of property, plant and equipment qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the entity in excess of what it could derive if they had not been acquired. However, such assets are only recognized to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total economic benefits or service potential that the entity expects to recover from their continued use and ultimate disposal. For example, fire safety regulations may require a hospital to retro fit new sprinkler systems. These enhancements are recognized as an asset because, without them, the entity is unable to operate the hospital in accordance with the regulations.~~

Para 19 was relocated from original para 18 with minor changes.

19. This standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

20. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or

construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

- ~~20~~21. Specialist military equipment will normally meet the definition of property, plant and equipment and should be recognized as an asset in accordance with this Standard.

Infrastructure Assets

- ~~21~~22. Some assets are commonly described as “infrastructure assets”. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

- (a) they are part of a system or network;
- (b) they are specialized in nature and do not have alternative uses;
- (c) they are immovable; and
- (d) they may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

Initial Costs

This para
was
relocated
from
original
para 19
with minor
changes.

23. Items of property, plant and equipment may be required for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because without them the entity is unable to operate the hospital in accordance with the regulations. However, the

resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with the appropriate international or national accounting standard on impairment of assets that has been applied by the entity.

Subsequent Costs

Para 24 was added to explain how the general recognition principle applies to subsequent expenditures.

24. Under the recognition principle in paragraph 15, an entity does not recognize in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the ‘repairs and maintenance’ of the item of property, plant and equipment.

Para 25 was relocated from original para 37 with changes.

25. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 15, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 84-89).

Para 26 was added to explain how the general recognition principle applies to subsequent expenditures.

26. A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the

estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Initial Measurement at Recognition of Property, Plant and Equipment

2227. *An item of property, plant and equipment ~~which~~ that qualifies for recognition as an asset shall ~~should initially~~ be measured at its cost.*

2328. *Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.*

2429. An item of property, plant and equipment may be gifted or contributed to the entity. For example, land may be contributed to a local government by a developer at nil or nominal consideration, to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired at nil or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

2530. For the purposes of this Standard, the initial measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph **2328**, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph **3945**, and the supporting commentary in paragraphs **4046** to **4551**, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

Para 26 was split into current para 28 and 29 with changes.

Subpara (c) was relocated from previous para 26(e) with changes.

Components Elements of Cost

2631. The cost of an item of property, plant and equipment comprises:

- (a) -its purchase price, including import duties and non-refundable purchase taxes, ~~after deducting trade discounts and rebates;~~ and
- (b) any costs directly attributable ~~costs of bringing to bringing~~ the asset to ~~the location and working~~ condition ~~necessary for its intended use~~ it to be capable of operating in the manner intended by management.

- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period; ~~any trade discounts and rebates are deducted in arriving at the purchase price.~~

32. Examples of directly attributable costs are:

Staff use the description in brackets of (a) to replace “as defined in IAS 19” by the IASB.

- (a) costs of employee benefits (as defined in the appropriate international or national accounting standard on employee benefits that has been applied by the entity) arising directly from the construction or acquisition of the item of property, plant and equipment;
- (ab) ~~the costs~~ of site preparation;
- (bc) initial delivery and handling costs;
- (ed) installation and assembly costs;
- (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- (df) professional fees ~~such as for architects and engineers; and~~
- (e) ~~the estimated cost of dismantling the asset and restoring the site, to the extent that it is recognized as a provision. Guidance on accounting for provisions is found in Accounting Standards on Provisions, Contingent Liabilities and Contingent Assets.~~

Previous subpara (e) was relocated to current para 31(c).

This para was relocated to current para 38 with minor changes.

27. ~~When payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 5 *Borrowing Costs*.~~

33. An entity applies IPSAS 12 *Inventories* to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce

inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and IPSAS 17 are recognized and measured in accordance with IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets.

2834. Examples of costs that are not the costs of an item of property, plant and equipment are:

- (a) costs of opening a new facility;
- (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) costs of conducting business in a new location or with a new class of customers (including costs of staff training); and
- (d) ~~Administration and other general overhead costs are not an component of the cost of property, plant and equipment unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start up and similar costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognized as an expense.~~

35. Recognition of costs in the carrying amount of an item of property, plant and equipment when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

- (a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
- (b) initial operating losses, such as those incurred while demand for the item's output builds up;and
- (c) costs of relocating or reorganizing part or all of the entity's operations.

Para 35 was relocated from previous para 28 with changes.

Para 36 was added mainly to explain more clearly what items couldn't constitute an element of costs.

36. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit for the period, and included in their respective classifications of revenue and expense.

2937. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of ~~producing~~constructing the an assets for sale (see International Public Sector Accounting Standard IPSAS 12 *Inventories*). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in ~~the production of a~~self-constructed an asset, is not included in the cost of the asset. IPSAS 5 *Borrowing Costs* establishes criteria ~~which need to be satisfied before for the recognition of~~ interest costs ~~can be recognized~~ as a component of the carrying amount of a self-constructed item of property, plant and equipment ~~cost~~.

Measurement of cost

Para 38 was relocated from original para 27 with minor changes.

38. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date except those items referred in paragraph 28. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5 *Borrowing Costs*.

Para 39-41 were added due to the change in measurement of asset exchange transactions

39. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-

monetary asset for another, but it also applies to all the changes described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

40. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity's having to perform detailed calculations.

41. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

3042. The cost of an ~~asset item~~ of property, plant and equipment held by a lessee under a finance lease is determined in accordance with using the principles set out in International Public Sector Accounting Standard IPSAS 13 Leases.

Exchanges of Assets

This section was deleted due to restructuring the Standard. The relevant content is now located in para 39-41.

31. ~~An item of property, plant and equipment may be acquired in exchange or part exchange for a dissimilar item of property, plant and equipment or other asset. The cost of such an item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.~~
32. ~~An item of property, plant and equipment may be acquired in exchange for a similar asset that has a similar use in the same line of business and which has a similar fair value. An item of property, plant and equipment may also be sold in exchange for an equity interest in a similar asset. In both cases, no gain or loss is recognized on the transaction. Instead, the cost of the new asset is the carrying amount of the asset given up. However, the fair value of the asset received may provide evidence of an impairment in the asset given up. Under these circumstances the asset given up is written down and this written down value assigned to the new asset. Examples of exchanges of similar assets include the exchange of buildings and other real estate, machinery, specialized equipment, and aircraft. If other assets such as cash are included as part of the exchange transaction this may indicate that the items exchanged do not have a similar value.~~

Subsequent Expenditure

This section was deleted due to restructuring the Standard. The relevant content is now located in paras 24-26. The change was different from what in ED. Pls refer to the covering memo.

33. ~~*Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. All other subsequent expenditures should be recognized as expenses in the period in which they are incurred.*~~
34. ~~Subsequent expenditure on property, plant and equipment is only recognized as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its~~

~~most recently assessed standard of performance. Examples of improvements which result in increased future economic benefits or service potential include:~~

- ~~(a) modification of an item of plant to extend its useful life, including an increase in its capacity;~~
- ~~(b) upgrading machine parts to achieve a substantial improvement in the quality of output; and~~
- ~~(c) adoption of new production processes enabling a substantial reduction in recently assessed operating costs.~~

~~35. Expenditures related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset. As such, they are usually recognized as an expense when incurred. For example, the cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the most recently assessed standard of performance.~~

~~36. The appropriate accounting treatment for expenditures incurred subsequent to the acquisition of an item of property, plant and equipment depends on the circumstances which were taken into account on the initial measurement and recognition of the related item of property, plant and equipment and whether the subsequent expenditure is recoverable. For instance, when the carrying amount of the item of property, plant and equipment already takes into account a loss in economic benefits or service potential, the subsequent expenditures to restore the future economic benefits or service potential expected from the asset are capitalized, provided that the carrying amount does not exceed the total economic benefits or service potential that the entity expects to recover from the continued use and ultimate disposal of the item. This is also the case when the purchase price of an asset already reflects the entity's obligation to incur expenditures in the future, which are necessary to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditures are added to the carrying amount of the asset to the extent that they can be recovered from future use of the asset.~~

Example

An entity is upgrading a wastewater and effluent treatment plant. The plant was recently assessed to have a total life of 20,000 hours of operating time, and is operated for 6,000 hours over a year, leaving a remaining life of 14,000 hours. The plant then undergoes a major overhaul that adds a further 4,000 hours of operating time to its life. After the overhaul, the plant can be viewed as having a total life of 24,000 hours, which is an improvement on the previously assessed 20,000 hours, and the relevant expenditures are capitalized.

Para 37 was relocated to current para 25 with minor changes.

37. Major components of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of usage or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. The components are accounted for as separate assets because they have useful lives different from those of the items of property, plant and equipment to which they relate. Therefore, provided the recognition criteria in paragraph 13 are satisfied, the expenditure incurred in replacing or renewing the component is accounted for as the acquisition of a separate asset and the replaced asset is written off.

Measurement ~~Subsequent to Initial~~ after Recognition

Staff noted that IASB did not use “benchmark or alternative” treatment any more, para 43 was therefore added by the IASB.

43. *An entity shall choose the cost model in paragraph 44 or the revaluation model in paragraph 45 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.*

~~Benchmark Treatment~~ Cost Model

3844. *Subsequent to initial recognition After recognition as an asset, an item of property, plant and equipment ~~should~~ shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.*

Allowed Alternative Treatment Revaluation Model

~~3945.~~ *~~Subsequent to initial recognition~~ After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably ~~should~~ shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations ~~should~~ shall be made with sufficient regularity ~~such~~ to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs ~~4955~~ to 5157.*

Revaluations

~~4046.~~ The fair value of items of property is usually determined from market-based evidence by appraisal. The fair value of items of plant and equipment is usually their market value, determined by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

~~4147~~ For some public sector assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of such assets.

~~4248.~~ Where~~If~~ no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialized buildings and other man-made structures, fair value may be estimated using depreciated replacement cost. In

many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation because of its significance to the community.

4349. ~~For~~ If there is no market-based evidence of fair value because of the specialized nature of the items of plant and equipment ~~of a specialized nature, an entity may need to estimate~~ fair value ~~may be based on using~~, for example, either reproduction cost or on depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

4450. The frequency of revaluations depends upon the movements changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment ~~may~~ experience significant and volatile movements changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant movements changes in fair value. Instead, it may be necessary to revaluation the item only every three or five years ~~may be sufficient~~.

4551. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is either treated in one of the following ways:

- (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of an index to its depreciated replacement cost; ~~or,~~

- (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. ~~For example, this method is used for buildings which are revalued to their market value.~~

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount which is dealt with in accordance with paragraphs 4955 and 5056.

4652. ~~When~~If *an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs ~~should~~ shall be revalued.*

4753. A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

- (a) land;
- (b) operational buildings;
- (c) roads;
- (d) machinery;
- (e) electricity transmission networks;
- (f) ships;
- (g) aircraft;
- (h) specialist military equipment;
- (i) motor vehicles;
- (j) furniture and fixtures;
- (k) office equipment; and
- (l) oil rigs.

4854. The items within ~~the~~a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements ~~which that~~ are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period ~~of time~~ and provided the revaluations are kept up to date.

- 4955.** *~~When~~If the carrying amount of a class of assets is increased as a result of a revaluation, the increase ~~should~~ shall be credited directly to revaluation surplus. However, ~~a revaluation the increase should shall~~ be recognized as revenue in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized ~~as an expense in surplus or deficit~~.*
- 5056.** *~~When~~If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease ~~should~~ shall be recognized ~~as an expense in surplus or deficit~~. However, ~~a revaluation the decrease should shall~~ be ~~charged~~debited directly ~~against to any related~~ revaluation surplus to the extent of any credit balance existing that the decrease does not exceed the amount held in the revaluation surplus in respect of that same class of assets.*
- 5157.** *Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.*
- 5258.** *Some or all of the revaluation surplus included in net assets in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the surplus assets is are realized derecognized. This may involve transferring ~~The surplus may be realized, in part or in some or the whole of the surplus when the assets, on the retirement or disposal of some or all of the assets~~ within the class of property, plant and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be ~~realized~~ transferred as the assets are used by the entity; ~~if~~ in such a case, the amount of the surplus ~~realized is the~~ transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. ~~The transfers~~ Transfers from revaluation surplus to accumulated surpluses or deficits ~~is are~~ is are not made through ~~the statement of financial performance surplus or deficit~~.*
- 5359.** *Guidance on the effects on taxes on surpluses, if any, resulting from the revaluation of property, plant and equipment can be found in International Accounting Standard IAS 12, *Income Taxes*.*

Depreciation

Paras 60-64 were relocated from original para 18 and split into 5 paras with additional contents mainly relating to components of depreciation.

- 60. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.**
- 61. An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.**
- 62. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.**
- 63. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.**
- 64. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.**
- 65. The depreciation charge for each period shall be recognized in surplus or deficit unless it is included in the carrying amount of another asset.**
- 66. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly,**

Para 65 was relocated from the last sentence of original para 54.

Para 66 was relocated from original para 61 with minor changes.

depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset that is recognized in accordance with the appropriate international or national accounting standard on intangible assets that has been applied by the entity.

Depreciation Amount and Depreciation Period

5467. *~~The depreciable amount of an asset ~~item of property, plant and equipment should~~ shall be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits or service potential is consumed by the entity. The depreciation charge for each period should be recognized as an expense unless it is included in the carrying amount of another asset.~~*

Para 68 was relocated from original para 62 with minor changes.

68. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors.

Para 69 was relocated from original para 64 with minor changes.

69. Depreciation is recognized even if the fair value of the assets exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.

Para 70 was relocated from the first sentence of original para 59.

70. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

71. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Para 72 was relocated from original para 72 with additional contents.

72. Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be

capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

~~55. As the economic benefits or service potential embodied in an asset is consumed by the entity, the carrying amount of the asset is reduced to reflect this consumption, normally by charging an expense for depreciation. A depreciation charge is made even if the value of the asset exceeds its carrying amount.~~

5673. The future economic benefits or service potential embodied in an item of property, plant and equipment is consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been ~~expected to be available~~ obtained from the asset. Consequently, all the following factors ~~need to be~~ are considered in determining the useful life of an asset:

Staff are concerned about the applicability of “commercial” added by IASB to public sector.

- (a) ~~the~~ expected usage of the asset ~~by the entity~~. Usage is assessed by reference to the asset’s expected capacity or physical output~~;~~.
- (b) ~~the~~ expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program ~~of the entity~~, and the care and maintenance of the asset while idle~~;~~.
- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset~~;~~ ~~and~~.
- (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

~~5774.~~ The useful life of an asset is defined in terms of the asset’s expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a certain specified proportion of the future economic benefits or service potential embodied in the asset.

Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of ~~an item of property, plant and equipment~~ the asset is a matter of judgment based on the experience of the entity with similar assets.

~~5875.~~ Land and buildings are separable assets and are ~~dealt with~~ accounted separately ~~for accounting purposes~~, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, it and ~~normally~~ has an unlimited useful life and, therefore, is not depreciated. Buildings have a limited useful life and, therefore, are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the useful life depreciable amount of the building.

76. If the cost of land includes the cost of site dismantlement, removal and restoration, the restoration cost portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Para 77 was relocated from the middle sentence of original para 54.

Depreciation Method

77. The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.

Para 78 was relocated from original para 65 with minor changes.

78. The depreciation method applied shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

The first sentence of original para 59 was relocated to para 70.

~~59. The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and therefore is immaterial in the calculation of the depreciable amount. When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition and is not subsequently increased for changes in prices. However, when the allowed alternative treatment is~~

~~adopted, a new estimate is made at the date of any subsequent revaluation of the asset. The estimate is based on the residual value prevailing at the date of the estimate for similar assets which have reached the end of their useful lives and which have operated under conditions similar to those in which the asset will be used.~~

- ~~6079.~~ A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the ~~sum of the units of production~~ method. Straight-line depreciation results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asset. The ~~sum of the units of production~~ method results in a charge based on the expected use or output ~~of the asset~~. The ~~entity selects the method used for an asset is selected based on that most closely reflects~~ the expected pattern of ~~consumption of the future~~ economic benefits or service potential ~~embodied in the asset., and That method is consistently~~ applied ~~consistently~~ from period to period unless there is a change in the expected pattern of ~~consumption of those future~~ economic benefits or service potential ~~from that asset~~.

This para was relocated to current para 66 with minor changes.

- ~~61. The depreciation charge for a period is usually recognized as an expense. However, in some circumstances, the economic benefits or service potential embodied in an asset is absorbed by the entity in producing other assets rather than giving rise to an expense. In this case, the depreciation charge comprises part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset that is recognized in accordance with the relevant international or national accounting standard dealing with intangible assets.~~

Review of Useful Life

This section has been deleted due to restructuring the Standard. Its main contents are now located in current paras 68-69.

- ~~62. The useful life of an item of property, plant and equipment should be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.~~

63. ~~During the life of an asset it may become apparent that the estimate of the useful life is inappropriate. For example, the useful life may be extended by subsequent expenditures on the asset which improve the condition of the asset beyond its most recently assessed standard of performance. Alternatively, technological changes or changes in the market for the products may reduce the useful life of the asset. In such cases, the useful life, and therefore the depreciation rate, is adjusted for the current and future periods.~~
64. ~~The repair and maintenance policy of the entity may also affect the useful life of an asset. The policy may result in an extension of the useful life of the asset or an increase in its residual value. However, the adoption of such a policy does not negate the need to charge depreciation. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.~~

Review of Depreciation Method

65. ~~The depreciation method applied to property, plant and equipment should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits or service potential from those assets, the method should be changed to reflect the changed pattern. When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.~~

This section has been deleted due to restructuring the Standard and relocated to current para 78 with minor changes.

Recoverability of the Carrying Amount— Impairment Losses

6680. To determine whether an item is impaired, an entity applies the appropriate international or national accounting standard, ~~dealing with~~ on impairment of assets that has been applied by the entity¹. International Accounting Standard IAS 36, *Impairment of Assets* contains guidance on reviewing the carrying amount of assets held for generating positive cash

¹ The Committee is currently developing a Standard on impairment of assets. The Committee has issued an [Invitation to Comment-Exposure Draft \(ITCED\)](#) *Impairment of Assets*. Responses received on this [ITCED](#) will assist the Committee in developing an International Public Sector Accounting Standard on the impairment of assets.

This para is to be updated when an IPSAS based on ED 23 is issued.

flows, determining the recoverable amount of such assets and the recognition of impairment losses and reversals of impairment losses.

6781. IAS 22 *Business Combinations* provides guidance on impairment losses recognized before the end of the first annual accounting period commencing after a business combination that is an acquisition.

This section is a new section. It was dealt with in SIC-14 that is clarified in IAS 16.

Compensation for impairment

82. *Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.*

83. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

Subpara (a) will be updated when an IPSAS based on ED 23 is issued.

- (a) impairments of items property, plant and equipment are recognized in accordance with the appropriate international or national accounting standard on impairment of assets that has been applied by the entity;
- (b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;
- (c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable; and
- (d) the cost of items of property, plant and equipment restored, purchased or constructed as replacement is determined in accordance with this Standard.

Retirements and DisposalsDerecognition

6884. *The carrying amount of ~~Aan~~ item of property, plant and equipment ~~shall~~should be eliminated from the statement of financial position*~~derecognised on~~:-

- (a) ~~on disposal~~; or

(b) ~~when the asset is permanently withdrawn from use and no future economic benefits or service potential is expected from its use or disposal.~~

The middle sentence of previous para 69 is relocated to current para 88.

6985. ~~The G~~ains or losses arising from the ~~retirement or disposal derecognition~~ of an item of property, plant and equipment ~~shall~~ should be included in surplus or deficit when the item is derecognized. ~~determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset.~~ For the purposes of display in the financial statements, the gain or loss ~~should~~ shall be included in the statement of financial performance as an item of revenue or expense, as appropriate. (unless IPSAS 13, Leases requires otherwise on a sale and leaseback).

Pls note. IASB does not allow gains to be classified as revenues. Staff retain the previous version because of the absence of "income" notion in IPSASs.

~~70. When an item of property, plant and equipment is exchanged for a similar asset under the circumstances described in paragraph 31, the cost of the acquired asset is equal to the carrying amount of the asset disposed of and no gain or loss results.~~

Para 86 was amended to state how to determine the derecognition date of a PPE item.

7186. The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IPSAS 9 *Revenues from Exchange Transactions* for recognizing revenue from the sale of goods. IPSAS 13 *Leases* applies to disposal by a ~~S~~sale and leaseback transactions are accounted for in accordance with IPSAS 13.

Para 87 was added to be consistent with the general recognition principle specified in para 15.

87. If, under the recognition principle in paragraph 15, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

Para 88 was relocated from the middle sentence of original para 69.

88. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Para 89 was added to reflect a common practice while disposing an asset.

89. The consideration receivable on disposal of an item of property, plan and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable.
- ~~72. Property, plant and equipment which is retired from active use and held for disposal is carried at its carrying amount at the date when the asset is retired from active use. At least at each reporting date, an entity tests the asset for impairment under the relevant international or national accounting standard adopted in relation to impairment of assets and recognizes any impairment loss accordingly.~~

Disclosure

- ~~73~~90. *The financial statements ~~shall~~ **should** disclose, for each class of property, plant and equipment recognized in the financial statements:*
- (a) the measurement bases used for determining the gross carrying amount. ~~When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;~~*
 - (b) the depreciation methods used;*
 - (c) the useful lives or the depreciation rates used;*
 - (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and*
 - (e) a reconciliation of the carrying amount at the beginning and end of the period showing:*
 - (i) additions;*
 - (ii) disposals;*
 - (iii) acquisitions through business combinations;*
 - (iv) increases or decreases ~~during the period~~ resulting from revaluations under paragraphs ~~39~~45, ~~49~~55 and ~~50~~56 and from impairment losses (if any) recognized or reversed directly in net assets/equity ~~under~~ in accordance with the appropriate*

international or national accounting standard ~~adopted~~ applied;

- (v) ~~impairment losses (if any) recognized in the statement of financial performance during the period~~ surplus or deficit under in accordance with the appropriate international or national accounting standard on impairment of assets ~~adopted~~ applied;
- (vi) ~~impairment losses (if any) reversed in the statement of financial performance during the period~~ surplus or deficit under in accordance with the appropriate international or national accounting standard on impairment of assets ~~adopted~~ applied;
- (vii) depreciation;
- (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign entity operation into the presentation currency of the reporting entity; and
- (ix) other movements changes.

Subpara (viii) was changed due to the change in IPSAS 4.

7491. The financial statements ~~shall~~should also disclose for each class of property, plant and equipment recognized in the financial statements:

- (a) the existence and amounts of restrictions on title, for and property, plant and equipment pledged as securities for liabilities;
- ~~(b) the accounting policy for the estimated costs of restoring the site of items of property, plant and equipment;~~
- ~~(c)~~ (b) the amount of expenditures on account recognized in the carrying amount of an item of property, plant and equipment in the course of its construction; and
- ~~(d)~~ (c) the amount of contractual commitments for the acquisition of property, plant and equipment; and
- (d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

Subpara (d) is a new disclosure requirement added by IASB.

7592. ~~The~~ Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information ~~which~~that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) ~~the depreciation allocated, whether recognized in surplus or deficit or as a part of the cost of other assets, during~~in a period; and

(b) ~~the~~ accumulated depreciation at the end of ~~that~~the period.

7693. In accordance with IPSAS 3 Accounting Policies, Accounting Estimates and Errors An entity discloses the nature and effect of a change in an accounting estimate that has an ~~material~~ effect in the current period; or ~~which~~ is expected to have an ~~material~~ effect in subsequent periods; ~~in accordance with International Public Sector Accounting Standard IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policy.~~ For property, plant and equipment, Ssuch disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) the estimated costs of dismantling, ~~and~~ removing or restoring items of property, plant ~~or~~and equipment ~~and restoring the site~~;

(c) useful lives; and

(d) depreciation methods.

7794. ~~When~~If a class of property, plant and equipment is stated at revalued amounts, the following ~~should~~shall be disclosed:

~~(a)~~ the basis used to revalue the assets within the class;

~~(b)~~(a) the effective date of the revaluation;

~~(c)~~(b) whether an independent valuer was involved;

~~(d)~~(c) the nature of any indices used to determine replacement cost the methods and significant assumptions applied in estimating the assets' fair values;

(d) the extent to which the assets' fair values were determined directly by reference to observable prices in an

active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;

- (e) *the revaluation surplus, indicating the ~~movement~~change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;*
- (f) *the sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and*
- (g) *the sum of all revaluation deficits for individual items of property, plant and equipment within that class.*

Para 95 will be updated when an IPSAS based on ED 23 is issued.

~~7895.~~ In accordance with the appropriate international or national accounting standard on impairment of assets applied ~~A~~an entity discloses information on impaired property, plant and equipment ~~under the appropriate international or national accounting standard adopted~~ in addition to the information required by paragraph ~~7390~~(e)(iv) to (vi).

~~7996.~~ Users of F~~financial~~ statements users may also find the following information relevant to their needs:

- (a) the carrying amount of temporarily idle property, plant and equipment;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) the carrying amount of property, plant and equipment retired from active use and held for disposal; and
- (d) when the ~~benchmark treatment~~cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional Provisions

~~8097.~~ *Entities are not required to recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first ~~adoption~~application of this Standard.*

~~8198.~~ *An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards may initially recognize property, plant and equipment at cost or fair value. For items of property, plant*

and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition.

8299. Paragraph ~~13~~15 of this Standard requires the cost or fair value of an items of property, plant and equipment to be recognized as an asset ~~whenif, and only if~~:

- (a) it is probable that future economic benefits or service potential associated with the assetitem will flow to the entity; and
- (b) the cost or fair value of the assetitem ~~to the entity~~ can be measured reliably.

83100. The transitional provisions in paragraphs ~~80~~97 and ~~84~~98 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with International Public Sector Accounting Standards, with effect from the effective date of this Standard or subsequently. When entities adopt accrual accounting in accordance with International Public Sector Accounting Standards for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of assets. For this reason, for a five-year period following the date of first adoption of this Standard, entities are not required to comply fully with the requirements of paragraph ~~13~~15.

84101. Notwithstanding the transitional provisions in paragraphs ~~80~~97 and ~~84~~98, entities that are in the process of adopting accrual accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.

85102. The exemption from the requirements of paragraph ~~13~~15 implies that the associated measurement and disclosure provisions of this Standard do not need to be complied with in respect of those assets or classes of asset that are not recognized under paragraphs ~~80-97~~ and ~~84~~98.

86103. When initially adopting this Standard, an entity may control assets that it has not previously recognized. This Standard allows entities to initially recognize items of property, plant and equipment at cost or fair value. Where assets are initially recognised at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset's fair value as at the date of acquisition. Where the cost of acquisition

of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.

87104. *When an entity takes advantage of the transitional provisions in paragraphs ~~8097~~ and ~~8198~~ that fact ~~should~~ shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph ~~8097~~ should shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but which are now recognized ~~should~~ shall be disclosed.*

105. *The amendments to the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transactions specified in paragraphs 39-41 shall be applied prospectively to future transactions.*

Effective Date

88106. *An entity shall apply ~~This~~ International Public Sector Accounting Standard ~~becomes~~ effective for annual financial statements covering periods beginning on or after ~~1XX~~ January X 2003~~200X~~. Earlier application is encouraged. If an entity applies this Standard for periods beginning before XX X 200X, it shall disclose that fact.*

89107. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, 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.

Appendix – Illustrative Disclosures

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

The Department of the Interior is a public sector entity that controls a wide range of property, plant and equipment and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Statement of Financial Position for the year ended 31 December 20X1 and illustrate the principal disclosures required [under in accordance with](#) this Standard.

Notes

1. Land

- a) Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the Office of the National Valuer, an independent valuer.
- b) Restrictions on Titles:
Five hundred hectares of land (carried at 62,500 currency units) is designated as national interest land and may not be sold without the approval of the legislature. Two hundred hectares (carried at 25,000 currency units) of the national interest land and a further two thousand hectares (carried at 250,000 currency units) of other land are subject to title claims by former owners in an international court of human rights and the Court has ordered that the land may not be disposed of until the claim is decided; the Department recognizes the jurisdiction of the Court to hear these cases.

2. Buildings

- a) Buildings consist of office buildings and industrial facilities at various locations.
- b) Buildings are initially recognized at cost, but are subject to revaluation to fair value on an ongoing basis. The Office of the National Valuer determines fair value on a rolling basis within a short period of time. Revaluations are kept up to date.
- c) Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.

- d) ~~The Department recognizes the estimated cost of restoration of building sites in the cost of the buildings, when those costs meet the recognition criteria of a liability.~~
- e) — The Department has entered into five contracts for the construction of new buildings; total contract costs are 250,000 currency units.

3. Machinery

- a) Machinery is measured at cost less depreciation.
- b) Depreciation is calculated on a straight-line basis over the useful life of the machine.
- c) The machinery has various useful lives:
- | | |
|--------------------|----------|
| Tractors: | 10 years |
| Washing Equipment: | 4 years |
| Cranes: | 15 years |
- d) The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings - the contracted cost is 100,000 currency units.

4. Furniture and Fixtures

- a) Furniture and fixtures are measured at cost less depreciation.
- b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.
- c) All items within this class have a useful life of five years.

Reconciliations (in '000 of currency units)

	Land		Buildings		Machinery		Furniture and Fixtures	
Reporting Period	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	-	-	250	100	120	200	20	100
Disposals	-	-	150	40	60	80	20	-
Depreciation (As per Statement of Financial Performance)	-	-	160	180	145	135	50	50
Revaluations (net)	250	225	- 30	- 50	-	-	-	-
Closing Balance (As per Statement of Financial Position)	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Sum of Revaluation Surpluses (Paragraph 7894(f))	750	500	250	250	-	-	-	-
Sum of Revaluation Deficits (Paragraph 7894(g))	25	25	380	350	-	-	-	-

Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	-	-	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*
PSC Buenos Aires March 2004

Comparison with IAS 16

International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment* is drawn primarily from International Accounting Standard IAS 16 (Revised 1998/2003), *Property, Plant and Equipment*. The main differences between IPSAS 17 and IAS 16 are as follows:

This difference no longer exists as Staff have proposed changes to para 5(a) of Scope.

~~□ At the time of issuing this Standard, the PSC has not considered the applicability of IAS 41, *Agriculture*, to public sector entities, therefore IPSAS 17 does not reflect amendments made to IAS 16 consequent upon the issuing of International Accounting Standard IAS 41.~~

- IPSAS 17 does not require or prohibit the recognition of heritage assets. An entity which recognizes heritage assets is required to comply with the disclosure requirements of this Standard with respect to those heritage assets that have been recognized and may, but is not required to, comply with other requirements of this Standard in respect of those heritage assets. IAS 16 does not have a similar exclusion.
- IAS 16 requires items of property, plant and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date it is acquired.

This difference no longer exists because there is a general recognition principle for both initial costs and subsequent expenditures.

~~□ IAS 16 requires subsequent expenditures on property, plant and equipment to be capitalized when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the entity. IPSAS 17 adopts a similar treatment, but refers to the most recently assessed standard of performance—rather than that originally assessed—as the benchmark.~~

- IAS 16 requires, where an enterprise adopts the allowed alternative treatment revaluation model and carries items of property, plant and equipment at revalued amounts, the equivalent historical cost amounts to be disclosed. This requirement is not included in IPSAS 17.
- Under IAS 16, revaluation increases and decreases may only be matched on an individual item basis. Under IPSAS 17, revaluation increases and decreases may be offset on a class of asset basis.

- ~~IPSAS 17 does not provide an exemption from requiring comparative information for the disclosures in paragraph 73, IAS 16 provides an exemption.~~
- IPSAS 17 contains transitional provisions allowing entities to not recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first adoption of this Standard. The transitional provisions also allow entities to recognize property, plant and equipment at fair value on first adopting this Standard. IAS 16 does not include these transitional provisions.
- IPSAS 17 contains a different set of definitions of technical terms from IAS 16.
- The IASC Framework defines an asset as a resource controlled by an enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. IPSAS 17 adopts a slightly amended definition that incorporates the notion of service potential.
- Commentary additional to that in IAS 16 has been included in IPSAS 17 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 17 uses different terminology, in certain instances, from IAS 16. The most significant examples are the use of the terms ~~“entity”~~, “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 17. The equivalent terms in IAS 16 are ~~“enterprise”~~, “income”, “income statement”, “balance sheet” and “equity”.

Summary of Main Changes

IPSAS 16 *Investment Property*

The main changes proposed are:

Scope

- to replace “forests and similar regenerative natural resources” in paragraph 5 (a) with words “biological assets related to agriculture activity”. This is a consequent change on the issue of IAS 41 *Agriculture* rather than *Improvement Project*.

Property Interests Held by a Lessee under An Operating Lease

- to allow in paragraph 9 a property interest held by a lessee under an operating lease to be classified and accounted for as investment property provided that:
 - the rest of the definition of investment property is met;
 - the operating lease is accounted for as if it were a finance lease in accordance with IPSAS 13 *Leases*; and
 - the lessee uses fair value model set out in this Standard for the asset recognized only.
- to require a lessee that classifies a property interest held under an operating lease as investment property to account for the lease as if it were a finance lease in accordance with IPSAS 13 *Lease*, ie the asset shall be recognized at the lower of the fair value of the property interest and the present value of the minimum lease payments. The fair value is referred to that interest and not the underlying property. (see paragraphs 35-36)
- to clarify the subsequent measurement choice between cost model and fair value model is not available for a lessee accounting for a property interest held under an operating lease that it has elected to classify as investment property. Such investment property is required to be measured using fair value model. Once this alternative is selected for one such property, all other properties classified as investment property held by the entity are to be accounted for consistently on a fair value basis. (see paragraphs 43-44)

Previously, IPSAS 16 did not contain these requirements.

Changes Emanating from Proposed IPSAS 17 *Property, Plant and Equipment*

- to require an entity to apply one general asset recognition principle to all investment property costs at the time when they are incurred, including initial costs and subsequent expenditures. Previously, IPSAS 16 contained two recognition principles: one applied to initial costs while another applied to subsequent expenditures. (see paragraphs 21-26)
- to require an entity to recognize all asset exchange transactions at fair value unless the transactions lack commercial substances or the fair value of neither the asset given up nor the asset received can be reliably measured. It also provides similar guidance on how to judge whether an asset exchange transaction has commercial substance as in proposed IPSAS 17. Previously, IPSAS 16 did not contain relevant requirements with regard to the treatment for asset exchange transactions. (see paragraphs 37-39)
- to require in paragraph 80 an entity to derecognize the carrying amount of a part of an investment property if that part has been replaced and to include the cost of replacement in the carrying amount of the asset. Previously, IPSAS 16 did not extend its derecognition principle to replaced parts. Rather, its recognition principle for subsequent expenditures effectively precludes the cost of a replacement from being included in the carrying amount of the asset.
- to require an entity to include compensation from third parties for an investment property that was impaired, lost or given up in surplus or deficit when the compensation becomes receivable. Previously, IPSAS 16 did not contain this requirement. (see paragraphs 84-85)

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 16

Investment Property

Scope

34. This Standard ~~deals with~~ applies to accounting for investment property including the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and ~~with to~~ the measurement in a lessor's financial statements of investment property ~~leased-out~~ provided to a lessee under an operating lease. This Standard does not deal with matters covered in International Public Sector Accounting Standard IPSAS 13 *Leases*, including:

- (a) classification of leases as finance leases or operating leases;
- (b) recognition of lease revenue ~~earned on~~ from investment property (see also International Public Sector Accounting Standard IPSAS 9 *Revenue from Exchange Transactions*);
- (c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;
- (d) measurement in a lessor's financial statements of ~~property leased-out~~ its net investment underin a finance lease;
- (e) accounting for sale and leaseback transactions; and
- (f) disclosure about finance leases and operating leases.

45. This Standard does not apply to:

- (a) ~~forests and similar regenerative natural resources~~ biological assets related to agricultural activity; and
- (b) ~~mineral rights, the exploration for and extraction of and minerals reserve such as,~~ oil, natural gas and similar non-regenerative resources.

Having regarded the proposed change to subpara (a) consequent on issue of IAS 41 is not substantial. Staff made it consistent with IAS 40.

Definitions

Para 9 was added by IASB. It is a new measurement requirement regarding property interests held under an operating lease and accounted for as a finance lease.

Property Interest held by a Lessee under An Operating Lease

9. A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 43-65 for the asset recognized. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 86-90.

~~17. Under IPSAS 13, a lessee does not capitalize property held under an operating lease. Therefore, the lessee does not treat its interest in such property as investment property.~~

Para 17 was deleted due to the new treatment to property interests held by a lessee under an operating lease and accounted for as a finance lease.

Recognition

The recognition principle in para 21 now applies to both initial and subsequent costs. It is a major change.

1921. Investment property ~~should~~ shall be recognized as an asset when, and only when:

- (a) *it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and*
- (b) *the cost or fair value of the investment property can be measured reliably.*

Pls note equivalent paras 22 and 23 were removed by IASB. Staff still retained them because of lack of framework in IPSASs.

2022. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognized.

~~24~~23. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph ~~23~~28 of this Standard, under certain circumstances an investment property may be acquired at no cost or for a nominal cost. In such cases, cost is the investment property's fair value as at the date of acquisition.

Current
paras 24-26
were
relocated
from
previous
para 30.

24. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

25. Under the recognition principle in paragraph 21, an entity does not recognize in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

26. Parts of investment property may have been required through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognizes in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard.

Initial Measurement at Recognition

Paras 35-36
were added
due to the
new
measureme
nt
requirement
regarding
the property
interests
held under
an
operating
lease and
accounted
for as a
finance
lease.

35. **Except the property referred to in paragraph 28, the initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 30 of IPSAS 13, ie the asset shall be recognized at the lower of the fair value of the property and the present value of the minimum lease payment. An equivalent amount shall be recognized as a liability in accordance with that same paragraph.**

36. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the

cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out for the fair value model in paragraphs 43-62. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

Paras 37-39
were added
due to the
change in
measureme
nt of asset
exchange
transactions
in
IPSAS 17.

37. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all the exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

38. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity's having to perform detailed calculations.

39. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost unless the fair value of the asset received is more clearly evident.

Subsequent Expenditure

30. ~~*Subsequent expenditure relating to an investment property that has already been recognized should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the entity. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.*~~

31. ~~Subsequent expenditure on investment property is only recognized as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance. The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of an investment property depends on the circumstances which were taken into account on the initial measurement and recognition of the related investment and whether subsequent expenditure is recoverable. For instance, when the carrying amount of an investment property already takes into account a loss in future economic benefits or service potential, subsequent expenditure to restore the future economic benefits or service potential expected from the asset is capitalized. This is also the case when the purchase price of an asset reflects the entity's obligation to incur expenditure that is necessary in the future to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount.~~

This section was deleted by IASB the recognition principle in para 21 now applies to both initial and subsequent costs. The related content is now located in paras 24-26.

Measurement ~~Subsequent to Initial~~ After Recognition

Accounting Policy

3240. *With the exception noted in paragraph 44, An entity should shall choose as its accounting policy either the fair value model in paragraphs 3543 to 5765 or the cost model in paragraph 5866 as its accounting policy and should shall apply that policy to all of its investment property.*

3341. International Public Sector Accounting Standard IPSAS 3 *~~Net Surplus or Deficit for the Period, Accounting Policies, Changes in Accounting Estimates and Fundamental Errors and Changes in Accounting Policies,~~* states that a voluntary change in accounting policy ~~should~~ shall be made only if the change will result in a more appropriate presentation of ~~events or transactions, other events or conditions~~ in the entity's financial statements of the entity. It is highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation.

Fair Value Model

3543. *After initial recognition, an entity that chooses the fair value model should shall measure all of its investment property at its fair value, except in the exceptional cases described in paragraph 5563.*

44. *When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 9, paragraph 40 is not elective; the fair value model shall be applied.*

3746. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 8).~~usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate~~ Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special

Para 44 was added due to the new requirement regarding property interests under an operating lease in current para 9.

considerations or concessions granted by anyone associated with the sale.

3948. *The fair value of investment property ~~should~~ shall reflect the actual market state and circumstances as of conditions at the reporting date, not as of either a past or future date.*

4049. ~~The estimated f~~Fair value is time-specific as of a given date. Because ~~markets and~~ market conditions may change, the ~~estimated value~~ amount reported as fair value may be incorrect or inappropriate ~~if estimated at~~ as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

4450. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent ~~the market's view of~~ what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current market conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognized in the financial statements until a later date (eg periodic payments such as contingent rents).

51. Paragraph 35 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 40 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognized liabilities), should be zero. This fair value does not change regardless of whether, for accounting purpose, a leased asset and liability are recognized at fair value or at the present value of minimum lease payments, in accordance with paragraph 30 of IPSAS 13. Thus, remeasuring a leased asset from cost in accordance with paragraph 35 to fair value in accordance with paragraph 43 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.

This para was added by the IASB to clarify how to determine the fair value of an interest in a leased property.

4252. The definition of fair value refers to “knowledgeable, willing parties”. In this context, “knowledgeable” means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and ~~the state of the market conditions as of~~ at the reporting date.

43. ~~A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market, and with the current market expectations, rather than an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the a market comprising knowledgeable, willing buyers and sellers would requires. The present owner of an investment property is included among those who constitute the market.~~

4453. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in ~~the current market conditions~~. The willing seller is motivated to sell the investment property at market terms for the best price obtainable ~~in the open market after proper marketing, whatever that price may be~~. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (eg a willing seller would not take into account the particular tax circumstances of the actual investment property owner).

Para 45 was deleted due to the change made in original para 44 (current para 53).

45. ~~The expression “after proper marketing” means that the investment property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable. The length of exposure time may vary with market conditions, but must be sufficient to allow the investment property to be brought to the attention of an adequate number of potential purchasers. The exposure period is assumed to occur prior to the reporting date.~~

5459. Fair value differs from value in use, as defined in International Accounting Standard IAS 36, *Impairment of Assets*¹. Fair value

This para will be updated when an IPSAS based on ED 23 is issued.

¹ IAS 36, *Impairment of Assets*, defines value in use as “the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its life.” The PSC is currently developing a Standard on impairment of assets. The PSC has issued an ~~Invitation to Comment~~ Exposure Draft (ITCED)

reflects knowledge and estimates of ~~participants in the market, as well as factors that are relevant to market participants in general~~ knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's ~~knowledge and estimates, as well as entity specific~~ including the effects of factors that may be specific to the entity and ~~that are~~ not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:

- (a) additional value derived from the creation of a portfolio of properties in different locations;
- (b) synergies between investment property and other assets;
- (c) legal rights or legal restrictions that are specific only to the current owner; and
- (d) tax benefits or tax burdens that are specific to the current owner.

5260. In determining the fair value of investment property, an entity ~~avoids~~ does not double-counting of assets or liabilities that are recognized ~~in the statement of financial position~~ as separate assets or liabilities. For example:

Subpara (d)
was added
consequent on
the addition to
current para
50 regarding
fair value.

- (d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized liability, to arrive at the fair value of the investment property for accounting purpose.

5462. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized ~~financial~~ liabilities) will exceed the present value of the related cash receipts. ~~Guidance on accounting for any liability that may arise in this situation may be found in Accounting Standards on~~ An entity applies IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets to

Impairment of Assets (issued ~~July~~ September 20002003). Responses received on this ~~IFCED~~ will assist the PSC in developing an International Public Sector Accounting Standard on the impairment of assets.

determine whether to recognize a liability and, if so, how to measure it.

Inability to Measure Determine Fair Value Reliably

5563. *There is a rebuttable presumption that an entity ~~will be able to~~ can reliably determine the fair value of an investment property reliably on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that the ~~entity will not be able to determine the fair value of the investment property~~ is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity ~~should~~ shall measure that investment property using the ~~benchmark treatment cost model~~ in IPSAS 17 Property, Plant and Equipment. The residual value of the investment property ~~should~~ shall be assumed to be zero. The entity ~~should continue to~~ shall apply IPSAS 17 until the disposal of the investment property.*

5664. In the exceptional cases when an entity is compelled, for the reason given in the previous paragraph, to measure an investment property using the cost model in accordance the IPSAS 17—benchmark treatment (being the cost model as explained in paragraph 58 below), the entity it measures all its other investment property at fair value. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

Cost Model

5866. *After initial recognition, an entity that chooses the cost model ~~should~~ shall measure all of its investment property ~~using the benchmark treatment in accordance with IPSAS 17's Property, Plant and Equipment requirements for that model, that is, ie~~ at cost less any accumulated depreciation and any accumulated impairment losses.*

Pls note in equivalent para 72, IASB uses "deemed cost". Staff retain "cost" due to the absence of "deemed cost" notion in IPSASs.

Transfers

6472. For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting ~~under~~ in accordance with IPSAS 17 Property, Plant and Equipment or IPSAS 12 Inventories ~~should~~ shall be its fair value at the date of change in use.

Disposals

7479. The disposal of an investment property may ~~occur~~ be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in IPSAS 9 *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods and considers the related guidance in the Appendix to IPSAS 9. IPSAS 13 applies on a disposal by entering into a finance lease or by a sale and leaseback.

80. If, in accordance with the recognition principle in paragraph 21, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

Para 80 was added due to the recognition principle in para 21 now applies to both initial and subsequent costs.

7281. *Gains or losses arising from the retirement or disposal of investment property ~~should~~ shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in surplus or deficit (unless IPSAS 13 Leases requires otherwise on a sale and leaseback) in the period of the retirement or disposal. For the purposes of display in the financial statements, the gain or*

Pls note, IASB does not allow gains to be classified as revenues. Staff retain the previous version because of the absence of "income" notion in IPSASs

loss should be included in the statement of financial performance as an item of revenue or expense, as appropriate (unless IPSAS 13 Leases, requires otherwise on a sale and leaseback).

7382. The consideration receivable on disposal of an investment property is recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue under in accordance with IPSAS 9 on a time proportion basis that takes into account using the effective interest method ~~yield on the receivable~~.

83. An entity applies IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets or other Standards, as appropriate, to any (Guidance on accounting for liabilities such as those that the entity it retains after disposal of an investment property may be found in Accounting Standards on Provisions, Contingent Assets and Contingent Liabilities).

84. Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in surplus or deficit when the compensation becomes receivable.

85. Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

- (a) impairments of investment property are recognized in accordance with the appropriate international or national accounting standard on impairment of assets that has been applied by the entity;
- (b) retirements or disposals of investment property are recognized in accordance with paragraphs 78-83 of this Standard;
- (c) compensation from third parties for investment property that was impaired, lost or given up is recognized in surplus or deficit when it becomes receivable; and

Paras 84-85 were added. They are a new requirement to deal with compensations from third parties for assets impaired, lost or given up.

Subpara (a) will be updated when an IPSAS based on ED 23 is issued.

- (d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 27-39 of this Standard.

Disclosure

Fair Value Model and Cost Model

~~7486.~~ The disclosures ~~set out below~~ apply in addition to those in IPSAS 13. ~~Under~~ In accordance with IPSAS 13, the owner of an investment property ~~gives~~ provides a lessors's disclosures about ~~operating leases into which it has entered.~~ ~~Under IPSAS 13 a~~ An entity that holds an investment property under a finance lease or operating lease ~~gives~~ provides a lessees's disclosures ~~about that for finance leases and a lessors's disclosures about for any operating leases into which that the entity it has granted entered.~~

~~7587.~~ *An entity ~~should~~ shall disclose:*

- (a) whether it applies the fair value or the cost model.*
- (b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.*
- (~~d~~f) the amounts included in the statement of financial performance surplus or deficit for:*
- (~~f~~h) material—contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.*

Fair Value Model

~~7688.~~ *In addition to the disclosures required by paragraph 7587, an entity that applies the fair value model in paragraphs ~~35~~43 to ~~57~~65 ~~should~~ shall ~~also~~ disclose a reconciliation ~~of between the carrying amounts of investment property at the beginning and end of the period, showing the following (comparative information is not required):~~*

- (a) additions, disclosing separately those additions resulting from acquisitions and those resulting from*

Subpara (e)
was amended
due to the
change in
IPSAS 4.

~~capitalized subsequent expenditure~~ recognized in the carrying amount of an asset;

- (e) ~~the net exchange differences arising on the translation of the financial statements of a foreign entity into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;~~
- (g) ~~other movements~~ changes.

Para 89 was added due to the additional example in current para 60 (d).

89. When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognized as separate assets and liabilities as described in paragraph 60, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognized lease obligations that have been added back, and any other significant adjustments.

~~7790.~~ In the exceptional cases referred to in paragraph 60, when an entity measures investment property using the benchmark treatment cost model in IPSAS 17 Property, Plant and Equipment (because of the lack of a reliable fair value, see paragraph 55 above), the reconciliation required by the previous paragraph 85 should shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity ~~should~~ shall disclose:

Cost Model

~~7891.~~ In addition to the disclosures required by paragraph 7587, an entity that applies the cost model in paragraph 5866 should shall also disclose:

- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following (comparative information is not required):
 - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalized subsequent expenditure recognized as an asset;

Subparagraph
(vi) was
amended due
to the change
in IPSAS 4.

- (v) *the amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with the appropriate international or national accounting standard on impairment of assets applied;*
- (vi) *the net exchange differences arising on the translation of the financial statements ~~of a foreign entity~~ into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;*
- (viii) *other ~~movements~~ changes; and*

Transitional Provisions

Initial Adoption of Accrual Accounting

Fair Value Model

8295. *Under the fair value model, an entity ~~should~~ shall report the effect of ~~adopting~~ applying this Standard on its effective date (or earlier) as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first ~~adopted~~ applied. In addition:*

Having regarded the first application of an IPSAS for public sector entities is different from profit-entities. Staff retained para 95 (previous para 82 and added para 96 per IASB's changes.

- (a) *if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (determined on a basis that satisfies the definition of fair value in paragraph 68 and the guidance in paragraphs 3746 to 5462), the entity is encouraged, but not required, ~~to~~:*
 - (i) *to adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and*
 - (ii) *to restate comparative information for those periods; and*
- (b) *if the entity has not previously disclosed publicly the information described in (a), ~~the entity it should~~ shall*

not restate comparative information and ~~should~~ shall disclose that fact.

96. An entity that has previously applied IPSAS 16 and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property shall recognize the effect of that election as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the election is first made. In addition, it shall make the same disclosures for those property interests as required in paragraph 95.

8397. On the initial application of this Standard an entity may choose to apply the fair value model in respect of investment property already recognized in its financial statements. When this occurs, this Standard requires any adjustment to the carrying amount of the investment property to be taken to accumulated surplus or deficit for the period in which the Standard is first applied. This Standard requires a different treatment from ~~the benchmark and allowed alternative treatments for changes in accounting policies that required under by~~ IPSAS 3. IPSAS 3 requires comparative information to be restated (~~benchmark treatment~~) or additional ~~pro forma comparative information on a restated basis to be disclosed (allowed alternative treatment)~~ unless it is such restatement is impracticable to do so.

The minor change made here was due to the elimination of allowed alternative in proposed IPSAS3.

Cost Model

8599. Prior to initial adoption of this Standard an entity may recognize its investment property on a basis other than cost, for example fair value or some other measurement basis. IPSAS 3 applies to any change in accounting policies that ~~occurs~~ is made when an entity first ~~adopts~~ applies this Standard and chooses to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.

100. The requirements of paragraphs 37-39 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

This appendix has been deleted in improved IAS 40. However, given that it is helpful for reader to understand the relationship between these standards. It has been updated and retained.

Appendix

Decision Tree

The purpose of the following decision tree is to summarize which International Public Sector Accounting Standards apply to various kinds of property. This Appendix should be read in the context of the full standards.

