

## **Summary of Main Changes**

### **IPSAS 17 *Property, Plant and Equipment***

The main changes proposed are:

#### **Definitions**

In paragraph 13:

- to define terms “carrying amount”, “impairment loss”, “impairment loss of a non-cash-generating asset”, “recoverable amount” and “recoverable service amount” due to the issuance of IPSAS 21 *Impairment of Non-Cash-Generating Assets*. Previously, IPSAS 17 did not contain these definitions.
- to amend the definition of “residual value”. The amended definition would 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 from the disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. The previous definition in IPSAS 17 did not clarify that residual value was a current amount.
- 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 is used where relevant in determining whether an asset exchange transaction has commercial substance. Guidance on how to judge whether an asset exchange transaction has commercial substance is also provided (see paragraphs 38-40).

Previously, IPSAS 17 did not contain this definition and the relevant guidance.

#### **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 14, 19, 22, 24-25). Previously, IPSAS 17 contained two recognition principles - one applied to initial costs while another applied to subsequent expenditures.
- to clarify in paragraph 23 that the costs of day-to-day servicing of property, plant and equipment are recognized in surplus or deficit. Previously, IPSAS 17 did not make this very clear.

#### **Measurement at Recognition**

- to require an entity to include the estimate of asset dismantlement, removal and restoration costs as an element of cost of property, plant and equipment, including the obligations which the entity incurs both when the asset is acquired and when it is used at subsequent periods, except when it is used to produce inventories (see paragraph 30). IPSAS 12 applies to the obligations for dismantling, removing and restoring that are incurred during the period of using the item to produce inventories.

Previously, IPSAS 17 included within the cost of property, plant and equipment only the obligation which the entity incurs when the item is acquired.

- to require an entity to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless: the exchange transaction lacks commercial substance; or the fair value of neither the asset given up nor the asset received can be reliably measured (see paragraphs 38-40).

Previously, IPSAS 17 divided asset exchange transactions into exchanges between similar

assets and exchanges between dissimilar assets. The different categories of exchange were subject to different accounting treatments. For exchange of similar assets, the cost of the asset received was the carrying amount of the asset given up. For exchange of dissimilar assets, the cost was 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 59-63). Previously, IPSAS 17 did not make this clear.
- 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 (see paragraph 71). Previously, IPSAS 17 did not specify when depreciation of an item began. It specified that an entity should cease depreciating an item when the item was retired from active use and was held for disposal.

### **Compensation for Impairments**

- to require an entity to include in surplus or deficit compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up when the compensation becomes receivable (see paragraphs 80). Previously, IPSAS 17 did not include these 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 from Exchange Transactions* are met (see paragraph 84). Previously, IPSAS 17 did not specify that an entity was to use the 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.
- 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 the replacement in the carrying amount of the item (see paragraph 85). Previously, IPSAS 17 did not apply its derecognition principle to replaced parts. Its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being included in the carrying amount of the item.

### **Transitional Provisions**

- to require the entity to recognize the effects of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant and equipment is initially recognized in accordance with IPSAS 17 (see paragraph 97).
- to clarify that an entity shall retrospectively apply accounting policies in accordance with IPSAS 3 when it initially adopts IPSAS 17 (see paragraph 99).

### **Amendments to Other IPSASs**

- to include an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project and will be impacted as a result of the proposals in this IPSAS.

(Please note: Staff have relocated the paragraph under the title of IPSAS 17 to this separate page and reflected the decision made on equal authority. It is also consistent with the IASB's approach.)

International Public Sector Accounting Standard 17 *Property, Plant and Equipment* (IPSAS 17) is set out in paragraphs 1-108 and the Appendix. All the paragraphs have equal authority. IPSAS 17 should be read in the context of its objective, the Basis for Conclusion (if any), and the *Preface to the International Public Sector Accounting Standards*. IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 17

## Property, Plant and Equipment

This para  
has been  
updated and  
relocated to  
the  
preceding  
page.

*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.

## Scope

12. An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall 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 ~~7388~~, ~~7489~~ and ~~7792~~ 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 ~~8095~~ to ~~87104~~ 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:

- (a) forests and similar regenerative natural resources; 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~~ applies to property, plant and equipment used to develop or maintain the ~~activities or~~ assets ~~covered described in 45(a) or 45(b) but which are separable from those activities or assets.~~

Staff did NOT incorporate changes made to above para 5 by IASB upon issue of IFRS 5 per decision in NY meeting. Subpara (a) was also retained per decision in BA meeting. The equivalent para in IAS 16 is as follows:

3. This Standard does not apply to:

- (a) property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (b) biological assets related to agricultural activity (see IAS 41 *Agriculture*); or
- (c) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b) and (c).

~~56. This Standard also does not apply where o~~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.

Staff are concerned that the first sentence of para 6 is not consistent with the hierarchy in IPSAS 3. Staff suggest to remove "or in the absence of ... other relevant international guidance," in the sentence.

- ~~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.

**1011.** The disclosure requirements in paragraphs ~~7388~~ to ~~7994~~ 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

Para 12 has been updated to reflect the latest version agreed by PSC in IPSAS 21.

**112.** 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 IPSAS 1 Presentation of Financial Statements. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs. ~~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.~~

## Definitions

**1213.** *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.*

The amendments to defn of cost by IASB upon issue of IFRS 2 *Share-based Payments* are NOT included per decision in NY meeting. The definition of cost in IAS 16 is as follows:

*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 or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IFRSs, eg IFRS 2 Share-based Payment.*

*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.*

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



“Impairment loss” is defined by IASB in IAS 36 and replicated in IAS 16. It will be updated when the IPSAS based on IAS 36 is approved.

“Impairment loss of a non-cash-generating asset” is defined in IPSAS 21.

“Recoverable service amount” is defined in IPSAS 21.

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

***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 ~~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

~~13~~14. *The cost of ~~An~~ item of property, plant and equipment ~~should~~ shall be recognized as an asset ~~when~~ if, and only if:*

Pls note recognition principle in para 14 applies to both initial costs and subsequent costs as per IASB's changes.

- (a) *it is probable that future economic benefits or service potential associated with the ~~asset~~ 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. 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 15, 16 were removed by the IASB. Staff retained them because of lack of the framework in IPSASs.

16. 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 ~~222~~6 to ~~252~~9 of this Standard, under certain circumstances cost is determined by reference to fair value.

~~17. In identifying what constitutes a separate item of property, plant and equipment, judgment is required in applying the criteria in~~

The first part of para 17 was relocated to current para 18 with minor changes.

IPSAS 17 Property, Plant and Equipment  
Item 12.4 Marked-up IPSASs 17 16, 3 and 6  
PSC New Delhi November 2004

~~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 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 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 59 to 63 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 22 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 18 was relocated  
from previous para 17  
with changes.

18. 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.

19. 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. 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. 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

Para 22 was relocated from previous para 19 with minor changes.

The PSC is currently developing an IPSAS on cash-generating assets based on IAS 36. This para will be updated when the IPSAS based on IAS 36 is approved.

22. 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 IPSAS 21 Impairment of Non-Cash-Generating Assets.

## Subsequent Costs

Para 23 was introduced by IASB to clarify that day-to-day servicing costs are recognized in surplus or deficit as incurred.

23. Under the recognition principle in paragraph 14, 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 24 was relocated from previous para 37 with changes.

24. 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 14, 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 82-87).

Para 25 was added to explain how the general recognition principle applies to subsequent expenditures.

25. 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**

2226. *An item of property, plant and equipment ~~which~~ that qualifies for recognition as an asset ~~should initially~~ shall be measured at its cost.*
2327. *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.*
2428. 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.
2529. 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 ~~2327~~, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph ~~3944~~, and the supporting commentary in paragraphs ~~4045~~ to ~~4550~~, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

## **Components ~~Elements~~ of Cost**

~~2630~~. 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.

~~31~~. Examples of directly attributable costs are:

- ~~(a)~~ (a) costs of employee benefits (for example, as defined in IAS 19 *Employee Benefits*) 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

Previous para 26 was split into current para 30 and 31 with changes.

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

In the brackets of subpara (a), Staff have used "for example, as defined in IAS 19" to replace "as defined in IAS 19" in IAS 16. This approach was used in IPSAS 21.

Previous subpara (e) was relocated to current para 30(c) with changes.

~~(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.~~

Para 27 was relocated to current para 37 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*.~~

32. 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*.

2833. 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.



Para 34 was relocated from previous para 28 with changes.

34. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases 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 introduced by the IASB to explain more clearly items that do not constitute an element of cost.

35. 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.

2936. 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~~ ing 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 37 was relocated from previous para 27 with changes. Staff used slightly different wording from IASB's due to the requirement in para 27.

37. The cost of an item of property, plant and equipment is the cash price equivalent or, for an item referred to in paragraph 27, its fair value at the recognition date. 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.

Paras 38-40 were introduced by IASB due to the change in the measurement of asset exchange transactions.

38. 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 exchanges 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.

39. 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 for the acquisition of items of property, plant and equipment for cash-generating purpose 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, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

Staff added "for the acquisition of items of property, plant and equipment for cash-generating purpose" in the beginning of this subpara as Staff consider this subpara only applies to cash-generating assets. In addition, Staff introduced "if tax applies" as some public sector entities may not be subject to tax.

40. 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.

3041. 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.

This section was deleted due to restructuring the Standard. The relevant contents are now located in paras 38-40.

## **Exchanges of Assets**

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.

This section was deleted due to restructuring the Standard. The relevant contents are now located in para 14 and paras 23-25.

## Subsequent Expenditure

- ~~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.~~

- ~~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~~

Para 37 was relocated to current para 24 with minor changes.

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

Since IASB no longer uses "benchmark or alternative" treatment, para 42 was therefore introduced by the IASB.

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

### ~~Benchmark Treatment~~ Cost Model

**3843.** ~~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

Pls note "impairment losses" in para 44 refers to those that could incur for cash-generating PPEs.

**3944.** ~~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 4954 to 5156.

### **Revaluations**

**4045.** 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.

**4146.** 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.

**4247.** ~~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, or the restoration cost or service units approaches (see IPSAS 21). 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.

Staff amended para 47 to maintain consistency between IPSAS 17 and IPSAS 21.

**4348.** ~~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, or the restoration cost or service units approaches (see IPSAS 21). 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

Staff amended para 48 to maintain consistency between IPSAS 17 and IPSAS 21.

period, and whether the capacity of the reference asset is the same as that of the asset being valued.

**4449.** 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~~.

**4550.** 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, t~~ This method is often used for buildings ~~which are revalued to their market value.~~

The punctuation was changed by the IASB.

\_\_\_\_\_ 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 that~~ is dealt with in accordance with paragraphs **4954** and **5055**.

**4651.** ~~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.

**4752.** 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;

In subpara (b), IASB used "land and buildings" rather than "operating buildings" in both previous and current IAS 16. Staff did not change it as this was a PSC amendment when finalizing existing IPSAS 17.



- (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.

**4853.** 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.

**4954.** ~~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.

**5055.** ~~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~~to the extent that it reverses a revaluation increase of the same class of assets previously recognized as revenue in surplus or deficit. However, ~~a revaluation~~the decrease ~~should~~shall be ~~charged~~debited directly ~~against to any related~~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.

**5156.** *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.*

~~5257.~~ 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; 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 from revaluation surplus to accumulated surpluses or deficits is are not made through the statement of financial performance surplus or deficit.

~~5358.~~ 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*.

Paras 59-63 were relocated from previous para 18 and split into 5 paras with additional contents. Public sector examples contained in existing IPSAS 17 have also been relocated to para 60.

## Depreciation

59. 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.

60. 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.

61. 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.

62. 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.

Para 64 was relocated from the last sentence of previous para 54.

63. 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.

64. *The depreciation charge for each period shall be recognized in surplus or deficit unless it is included in the carrying amount of another asset.*

64~~65~~. The depreciation charge for a period is usually recognized ~~as an expense in surplus or deficit~~. However, ~~in some circumstances sometimes~~, 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~~ 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, 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.

Para 65 was relocated from previous para 61 with minor changes.

## Depreciation Amount and Depreciation Period

54~~66~~. *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.~~*

The last two sentences of previous para 54 were relocated to current para 64 and 76.

67. *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)*

Para 67 was relocated from previous para 62 with changes.

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 68 was relocated from previous para 64 with minor changes.

68. 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 69 was relocated from the first sentence of previous para 59.

69. 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.

70. 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 71 was relocated from previous para 72 with additional contents.

71. 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.

Staff did NOT incorporate amendments made by IASB upon issue of IFRS 5 to above para 71 per decision in NY meeting. Its equivalent paragraph in IAS 16 is as follows:

55. 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 at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use 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.~~

~~56~~72. 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:

- (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.

~~57~~73. 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.

~~58~~74. Land and buildings are separable assets and are ~~dealt with~~ accounted for separately ~~for accounting purposes~~, even when

they are acquired together. With some exceptions, such as quarries and sites used for landfill, land 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.

75. If the cost of land includes the cost of site dismantlement, removal and restoration, that 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.

### **Depreciation Method**

Para 76 was relocated from the middle sentence of previous para 54.

76. 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.

77. 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.

Para 77 was relocated from previous para 65 with minor changes.

- ~~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.~~

The first sentence of previous para 59 was relocated to current para 69.



~~60~~78. 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~~.

~~61.~~ —relocated to current para 65.

#### **Review of Useful Life**

This section has been deleted. Its main contents are now located in current paras 67-68.

~~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**

This section has been deleted due to restructuring the Standard and was relocated to current para 77 with minor changes.

~~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.~~

### **Recoverability of the Carrying Amount— Impairment Losses**

The PSC is currently developing an IPSAS on impairment of cash-generating assets based on IAS 36. Staff will update this para when that IPSAS is issued.

~~66~~<sup>79</sup>. To determine whether an item of property, plant and equipment is impaired, an entity applies ~~the appropriate international or national accounting standard, dealing with impairment of assets~~ IPSAS 21 Impairment of Non-Cash-Generating Assets<sup>+</sup>. ~~International Accounting Standard IAS 36, Impairment of Assets contains guidance~~ The Standard explains on how an entity reviewing the carrying amount of its assets held for generating positive cash flows, how it determines the recoverable service amount or recoverable amount of such an assets, and when it recognizes, or reverses the recognition of, an impairment losses.

~~67. IAS 22 provides guidance on impairment losses recognized before the end of the first annual accounting period commencing after a business combination that is an acquisition.~~

Please note the equivalent of previous paragraph 67 in IAS 16 has been removed by the IASB upon issuing IFRS 3. IFRS 3 does not deal with impairment of goodwill. The relevant guidance is now contained in IAS 36.

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

<sup>+</sup> ~~The Committee is currently developing a Standard on impairment of assets. The Committee has issued an Invitation to Comment (ITC) Impairment of Assets. Responses received on this ITC will assist the Committee in developing an International Public Sector Accounting Standard on the impairment of assets.~~



## Compensation for impairment

80. 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.

Subpara (a) will be updated to reflect the development of an IPSAS on impairment of cash-generating assets based on IAS 36.

81. 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:

- (a) impairments of items of property, plant and equipment are recognized in accordance with IPSAS 21;
- (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

~~6882. The carrying amount of An item of property, plant and equipment shall be eliminated from the statement of financial position~~derecognized 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.

~~6983. The Ggains 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~~

The sentence dealing with the determination of gains or losses in previous para 69 is relocated to current para 86.

~~statements, the gain or 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). Gains shall not be classified as revenue.~~

Staff have amended the above para 83 to reflect the decision made in NY meeting in respect of the presentation of disposal gains of plant, property and equipment in IPSAS 1. This para now specifies that gains shall not be classified as revenue, which is consistent with IAS 16.

~~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 84 was amended to specify how to determine the derecognition date of a PPE item.

7184. 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 Revenue from Exchange Transactions for recognizing revenue from the sale of goods. IPSAS 13 Leases applies to disposal by a sale and leaseback transactions are accounted for in accordance with IPSAS 13.

Para 85 was introduced by IASB so as not to result in double-counting given the general recognition principle in current para 14.

85. If, under the recognition principle in paragraph 14, 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 86 was relocated from previous para 69.

86. 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 87 was added to reflect a common practice while disposing of an asset.

87. The consideration receivable on disposal of an item of property, plant 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.

Previous para 72 was relocated to current para 71.

~~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~~**88.** *The financial statements ~~should~~ shall 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;*

The amendments to subpara (ii) upon issue of IFRS 5 were not included per decision in NY meeting. The equivalent subpara (ii) in IAS 16 is as follows:

- (ii) *assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals.*

(iii) *acquisitions through business combinations;*

(iv) *increases or decreases ~~during the period~~ resulting from revaluations under paragraphs ~~39~~**44**, ~~49~~**54** and ~~50~~**55** and from impairment losses (if any) recognized or reversed directly in net assets/equity ~~under~~ in accordance with the appropriate*

Subpara (iv) will be further updated when the IPSAS based on IAS 36 is issued.

*international or national accounting standard adopted;*

Subpara (v) and (vi) have been updated to reflect the issue of IPSAS 21.

(v) *impairment losses ~~(if any)~~ recognized in ~~the statement of financial performance during the period surplus or deficit under in accordance with IPSAS 21~~ the appropriate international or national accounting standard adopted;*

(vi) *impairment losses ~~(if any)~~ reversed in ~~the statement of financial performance during the period surplus or deficit under in accordance with IPSAS 21~~ the appropriate international or national accounting standard adopted;*

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

(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.*

**7489.** *The financial statements ~~should~~ shall 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)~~ *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)~~ *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 introduced by IASB.

~~7590.~~ ~~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.

~~7691.~~ In accordance with IPSAS 3 ~~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, ~~Such~~ 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.

~~7792.~~ ***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.*

7893.

Para 93 will be updated when the IPSAS based on IAS 36 is issued.

In accordance with IPSAS 21 ~~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 ~~7388~~(e)(iv) to (vi).

7994.

Users of 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

The amendments to subpara (c) upon issue of IFRS 5 were not included per decision in NY meeting. The equivalent subpara (c) in IAS 16 is as follows:

- (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for ~~disposal~~ sale in accordance with IFRS 5; 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

~~80~~95. *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 of this Standard.*

~~81~~96. *An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards ~~may~~ shall 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.*

97. The entity shall recognize the effect of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant and equipment is initially recognized.

Para 97 was added to clarify how to recognize the effect of first-adoption of IPSAS 17. It was contained in existing IPSAS 16.

~~86~~98. ~~When~~Prior to initially adoptioning of this Standard, an entity may recognize its property, plant and equipment on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not previously recognized. This Standard ~~allows~~ requires entities to initially recognize items of property, plant and equipment at cost or fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially ~~recognised~~ recognized 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.

Para 98 was relocated from previous para 86. The amendments to this para were to clarify its intent.

99. IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an item of property, plant and equipment at cost in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied these accounting policies.

Para 99 was introduced to clarify the requirements on initial adoption.

**82100.** Paragraph ~~1314~~ of this Standard requires the cost of an items of property, plant and equipment to be recognized as an asset~~when if, and only if~~:

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

**83101.** The transitional provisions in paragraphs ~~8095~~ and ~~8196~~ 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 ~~1314~~.

**84102.** Notwithstanding the transitional provisions in paragraphs ~~8095~~ and ~~8196~~, 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.

**85103.** The exemption from the requirements of paragraph ~~1314~~ 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 ~~8095~~ and ~~8196~~.

**86.**

relocated to current paragraph 98.

**87104.** *When an entity takes advantage of the transitional provisions in paragraphs ~~8095~~ and ~~8196~~ that fact ~~should~~ shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph ~~8095~~ ~~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~~ that are now recognized ~~should~~ shall be disclosed.*

**105.** *For entities that have previously adopted International Public Sector Accounting Standards, the requirements of paragraphs 38-40 regarding the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.*

The wording of para 105 is slightly different from that in IAS 16 as IPSAS 17 deals with both first time adoption and changeover from existing IPSAS 17, not just first-time adoption.

## 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 ~~1 January 2003~~ MM DD YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD YYYY, 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.

## Withdrawal of IPSAS 17 (2001)

**108.** *This Standard supersedes IPSAS 17 Property, Plant and Equipment issued in 2001.*

The withdrawal para was added per decision in NY meeting.

## **Appendix – Amendments to Other IPSASs**

“Amendments to Other IPSASs” is a new authoritative section. Only the relevant paragraphs in other IPSASs that are not part of IPSASs Improvements project are included and shown in marked-up.

*The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. In IPSAS 18 Segment Reporting, paragraph 37 is amended to read as follows:

37. ....Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in an entity combination accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity’s separate or the controlled entity’s ~~separate~~ individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the ~~alternative accounting treatment allowed by revaluation model in~~ International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*, measurements of segment assets reflect those revaluations.

## **Appendix—Illustrative Disclosures Examples**

Staff have renamed this Appendix to “Illustrative examples” given it is not authoritative. This reflects IASB’s approach.

*The appendix is illustrative only and does not form part of the standards IPSAS 17. 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 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.

This disclosure requirement no longer exists (previous para 74 (b) was removed. see current para 89).

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)

	<b>Land</b>		<b>Buildings</b>		<b>Machinery</b>		<b>Furniture and Fixtures</b>	
Reporting Period	<b>20X1</b>	<b>20X0</b>	<b>20X1</b>	<b>20X0</b>	<b>20X1</b>	<b>20X0</b>	<b>20X1</b>	<b>20X0</b>
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 7892(f))	750	500	250	250	-	-	-	-
Sum of Revaluation Deficits (Paragraph 7892(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

IPSAS 17 *Property, Plant and Equipment*  
Item 12.4 *Marked-up IPSASs 17 16, 3 and 6*  
PSC New Delhi November 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:

- 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 issue~~ of International Accounting Standard IAS 41.
- IAS 16 does not apply to property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. At the time of issuing this Standard, the PSC has not considered the applicability of IFRS 5, to public sector entities, therefore IPSAS 17 does not reflect amendments made to IAS 16 consequent upon the issue of International Financial Reporting Standard IFRS 5.
- 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.
- ~~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.~~

This bullet reflects that IPSAS 17 does not incorporate consequential changes to IAS 16 upon the issue of IFRS 5 per discussion in NY meeting.

This difference no longer exists because the general asset recognition principle applies to both initial costs and subsequent expenditures.



- 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 for both the first time adoption and changeover from the previous version of IPSAS 17. IAS 16 only contains transitional provisions for entities that have already used IFRSs. Specifically, 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 definitions of “impairment loss of a non-cash-generating asset” and “recoverable service amount”~~a different set of definitions of technical terms from IAS 16. IAS 16 does not contain these definitions.~~
- ~~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

This difference no longer exists as the improved IAS 16 does not provide an exemption for comparative information.

Transitional provisions in IPSASs deal with both first-time adoption and changeover from existing IPSASs, while transitional provisions in IFRSs only apply to entities that have applied IFRSs. The first time application of IFRSs is specified in IFRS 1.

Staff deleted this dot point as IPSAS 17 did not specifically define term “asset”.

“~~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:

#### **Property Interests Held by a Lessee under An Operating Lease**

- to allow in paragraph 8 a property interest held by a lessee under an operating lease to be classified and accounted for as investment property provided that certain criteria are met.
- 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 determined by reference to that interest and not the underlying property (see paragraphs 34-35).
- to specify that the subsequent measurement choice between the cost model and the 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 the 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 42-43).

Previously, IPSAS 16 did not contain these requirements.

#### **Changes to Reflect Equivalent Requirements in 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 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 20-23, 25).
- to require an entity to measure investment property acquired in an asset exchange transaction at fair value unless the transaction lacks commercial substance, or the fair value of neither the asset given up nor the asset received can be reliably measured. Previously, IPSAS 16 did not contain requirements with regard to the accounting treatment for asset exchange transactions (see paragraphs 36-38).
- to require an entity to derecognize the carrying amount of a part of an investment property if that part has been replaced and the cost of replacement has been included in the carrying amount of the asset (see paragraph 79). Previously, the derecognition principle contained in IPSAS 16 did not apply to replaced parts. The recognition principle for subsequent expenditures in IPSAS 16 effectively precluded 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 83).

(Please note: Staff have relocated the paragraph under the title of IPSAS 16 to this separate page and reflected the decision made on equal authority. It is also consistent with the IASB's approach.)

International Public Sector Accounting Standard 16 *Investment Property* (IPSAS 16) is set out in paragraphs 1-103. All the paragraphs have equal authority. IPSAS 16 should be read in the context of its objective, the Basis for Conclusion (if any), and the *Preface to the International Public Sector Accounting Standards*. IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 16

This para  
has been  
updated  
and  
relocated to  
the  
preceding  
page.

## Investment Property

*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 International Public Sector Accounting Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

## Scope

12. *An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in accounting for investment property.*
23. *This Standard applies to all public sector entities other than Government Business Enterprises.*
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; and
- (b) mineral rights, ~~the exploration for and extraction of minerals, and mineral reserves such as~~ oil, natural gas and similar non-regenerative resources.

Please note Staff retained current text of para 5(a) per BA meeting's decision. The equivalent paragraph 4 in IAS 40 is as follows:

4. This Standard does not apply to:
- (a) biological assets related to agricultural activity (see IAS 41 *Agriculture*); and
  - (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

56. 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 IPSAS 1 *Presentation of Financial Statements*. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs. ~~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 6 is to be consistent with its latest version in IPSAS 21.

## Definitions

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

***Carrying amount*** *is (for the purpose of this Standard) the amount at which an asset is recognized in the statement of financial position.*



***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.***

The definition of cost was not updated to reflect the consequential amendments made by IASB upon issuing IFRS 2 *Share-based Payment* per decision in NY meeting. The definition of cost in IAS 40 is as follows:

***Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IFRSs, eg IFRS 2 Share-based Payment.***

***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.***

***Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:***

- (a) use in the production or supply of goods or services or for administrative purposes; or***
- (b) sale in the ordinary course of operations.***

***Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.***

***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.***

### **Property Interest held by a Lessee under An Operating Lease**

- 8. 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 42-64 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 85-89.

## Investment Property

79. There are a number of circumstances in which public sector entities may hold property to earn rental and for capital appreciation. For example, a public sector entity (other than a GBE) may be established to manage a government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property. Other public sector entities may also hold property for rentals or capital appreciation and use the cash generated to finance their other (service delivery) activities. For example, a university or local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.
810. Investment property is held to earn rentals or for capital appreciation or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services and the cash flows are attributable not ~~merely~~ only to the building, but also to other assets used in the production or supply process. International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment* applies to owner-occupied property.
911. In some public sector jurisdictions, certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, a government department may control and account for certain buildings that are legally owned by the State. In such circumstances, references to owner-occupied property means

property occupied by the entity that recognizes the property in its financial statements.

~~10~~12. The following are examples of investment property:

- (a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future~~;~~
- (b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land ~~either~~ as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is ~~considered to be~~ regarded as held for capital appreciation)~~;~~
- (c) a building owned by the ~~reporting~~ entity (or held by the reporting entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties~~;~~ and
- (d) a building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

~~11~~13. The following are examples of items that are not investment property and are therefore ~~fall~~ outside the scope of this Standard:

- (a) property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see International Public Sector Accounting Standard IPSAS 12 *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations

Pls note that “property held for sale” in the first sentence of current para 13 (a) has been changed to “property intended for sale” by IASB upon the issue of IFRS 5. Staff did not change that per decision in NY meeting.

as a result of changing demographics, in which case any housing stock held for sale is classified as inventory<sup>52</sup>.

- (b) property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see International Public Sector Accounting Standard IPSAS 11 *Construction Contracts*)<sup>52</sup>.
- (c) owner-occupied property (see IPSAS 17), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal<sup>52</sup>.
- (d) property that is being constructed or developed for future use as investment property. IPSAS 17 applies to such property until construction or development is complete, at which time the property becomes investment property and this Standard applies. However, this Standard ~~does not apply~~<sup>53</sup> to existing investment property that is being redeveloped for continued future use as investment property (see paragraph 61<sup>54</sup>68)<sup>52</sup>.
- (e) property that is leased to another entity under a finance lease.
- ~~(e)~~(f) property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with IPSAS 17<sup>55</sup>and

Subpara (e) was added by IASB.

~~(f)~~(g) property held for strategic purposes which would be accounted for in accordance with IPSAS 17.

~~12~~14. In many jurisdictions, public sector entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property. However, where a public sector entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, public sector entities hold ~~certain some~~ property that ~~includes comprises~~ a portion that is held to earn rentals or for capital appreciation rather than to provide services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

~~13~~15. In ~~certain some~~ cases, an entity provides ancillary services to the occupants of a property ~~it holds held by the entity~~. An entity treats such a property as investment property if the services are ~~a relatively~~ insignificant ~~component of to~~ the arrangement as a whole. An example ~~would be where is when~~ a government agency owns an office building which is held exclusively for rental purposes and rented on a commercial basis and also provides security and maintenance services to the lessees who occupy the building.

~~14~~16. In other cases, the services provided are ~~a more~~ significant ~~component~~. For example, a government may own a hotel or hostel that it manages through its general property management agency. The services provided to guests are ~~a significant component of to~~ the arrangement as a whole. Therefore, an owner-managed hotel or hostel is owner-occupied property, rather than investment property.

~~15~~17. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, a government or government agency which is the owner of a hotel may transfer ~~certain some~~

responsibilities to third parties under a management contract. The terms of such management contracts vary widely. At one end of the spectrum, the government's or government agency's position may, in substance, be that of a passive investor. At the other end of the spectrum, the government or government agency may simply have outsourced—~~certain~~ day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

~~16~~18. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property and with the related guidance in paragraphs ~~79~~ to ~~15~~17. Paragraph ~~75~~86(~~ac~~) requires an entity to disclose these criteria when classification is difficult.

Para 17 was deleted due to the new treatment of property interests held by a lessee under an operating lease.

~~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.~~

~~18~~19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements ~~that include both entities~~, because the property is owner-occupied from the perspective of the economic entity ~~as a whole~~. However, from the perspective of the ~~individual~~ entity that owns it, the property is investment property if it meets the definition in paragraph ~~6~~7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government the property would be accounted for as property, plant and equipment in accordance with IPSAS 17.

## Recognition

~~19~~20. *Investment property ~~should~~ shall be recognized as an asset when, and only when:*

The recognition principle in para 20 now applies to both initial and subsequent costs.



- (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.*

2021.

Pls note equivalent paras 21 and 22 were removed by IASB. Staff retained them here due to the lack of framework in IPSASs.

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.

2122.

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 2327 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.

23. 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.

24. Under the recognition principle in paragraph 20, 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.

Current paras 23-25 were relocated from previous para 30 with changes to illustrate how the general recognition principle applies.

25. Parts of investment property may have been acquired 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**

**2226.** *Investment property ~~should~~ shall be measured initially at its cost (transaction costs ~~should~~ shall be included in this initial measurement).*

**2327.** *Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.*

**2428.** The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

**2529.** The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies IPSAS 17. At that date, the property becomes investment property and this Standard applies (see paragraphs ~~59~~66(e) and ~~69~~76 below).

**2630.** The cost of investment property is not increased by:

(a) start-up costs (unless they are necessary to bring the property to ~~its working~~ the condition necessary for it to be capable of operating in the manner intended by management),

(b) ~~initial~~ operating losses incurred before the investment property achieves the planned level of occupancy, or

(c) abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.

**2731.** If payment for investment property is deferred, 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.

2832. An investment property may be gifted or contributed to the entity. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired for no cost, or for a nominal cost, through the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

2933. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 2327, the fair value is the cost of the property. The entity ~~may~~ shall decide, subsequent to initial recognition, to adopt either the fair value model (paragraphs ~~3542~~ to ~~5764~~) or the cost model (paragraph ~~5865~~).

34. *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 28 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 payments. An equivalent amount shall be recognized as a liability in accordance with that same paragraph.*

Note para 28 of IPSAS 13 refers to the para number in proposed IPSAS 13. Its equivalent in existing IPSAS 13 is para 20.

Paras 34-35 were added due to the new measurement requirement about the property interests under an operating lease.

35. 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 42-61. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

36. 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 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

Paras 36-38 were added to reflect the change in measurement of asset exchange transactions in IPSAS 17.

immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

37. 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, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

Staff added "if tax applies" to reflect the fact that some public sector entities may not be subject to tax.

38. 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 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~~

This section was deleted by IASB. The recognition principle in para 20 now applies to both initial and subsequent costs. The relevant contents are now located in paras 23-25.

~~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.~~

## **Measurement ~~Subsequent to Initial~~ After Recognition**

### **Accounting Policy**

- ~~3239.~~ 3340. ~~With the exception noted in paragraph 43, An entity should~~ shall choose as its accounting policy either the fair value model in paragraphs 3542 to 5764 or the cost model in paragraph 5865 as its accounting policy and should shall ~~apply that policy to all of its investment property.~~
- ~~3340.~~ 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.

- 3441.** This Standard requires all entities to determine the fair value of investment property for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and ~~who~~ has recent experience in the location and category of the investment property being valued.

The following paragraphs 32A-32C were added after the equivalent above para 41 and a cross-reference to the equivalent to above para 39 was also included by IASB upon issue of IFRS 4 *Insurance Contracts*. Staff did not incorporate these changes per decision in NY meeting. (Para 34 mentioned in para 30 below is the equivalent to current para 43 in IPSAS 16.)

**30.** *With the exceptions noted in paragraphs 32A and 34, an entity shall choose as its accounting policy either the fair value model in paragraphs 33-55 or the cost model in paragraph 56 and shall apply that policy to all of its investment property.*

**Investment property linked to liabilities**

**32A.** *An entity may:*

- (a) *choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and*
- (b) *choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).*

**32B.** Some insurers and other entities operate an internal property fund that issues notional units, with some units held by investors in linked contracts and others held by the entity. Paragraph 32A does not permit an entity to measure the property held by the fund partly at cost and partly at fair value.

**32C.** If an entity chooses different models for the two categories described in paragraph 32A, sales of investment property between pools of assets measured using different models shall be recognized at fair value and the cumulative change in fair value shall be recognised in profit or loss. Accordingly, if an investment property is sold from a pool in which the fair value model is used into a pool in which the cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

## Fair Value Model

- 3542.** *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 ~~55~~ 62.*

- 43.** *When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 8, paragraph 39 is not elective; the fair value model shall be applied.*

Para 43 was added due to the new requirement re property interests under an operating lease.



- ~~36~~44. *A gain or loss arising from a change in the fair value of investment property ~~should~~ shall be ~~included~~ recognized in ~~net surplus~~ or deficit for the period in which it arises.*
- ~~37~~45. 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 7).~~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 considerations or concessions granted by anyone associated with the sale.
- ~~38~~46. An entity determines fair value without any deduction for transaction costs ~~that the entity it~~ may incur on sale or other disposal.
- ~~39~~47. *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.*
- ~~40~~48. ~~The estimated~~ 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.
- ~~41~~49. 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).

50. Paragraph 34 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 42 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 purposes, a leased asset and liability are recognized at fair value or at the present value of minimum lease payments, in accordance with paragraph 28 of IPSAS 13. Thus, remeasuring a leased asset from cost in accordance with paragraph 34 to fair value in accordance with paragraph 42 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 the measurement regarding property interest held under an operating lease.

Para 28 of IPSAS 13 mentioned here refers to the paragraph in proposed IPSAS 13. Its equivalent in existing IPSAS 13 is para 20.

4251. 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~~ 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.~~

4452. 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).

Previous para 45 was deleted due to the change made in previous para 44 (current para 52).

~~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.~~

~~46~~53. The definition of fair value refers to an arm’s length transaction. An arm’s length transaction is one between parties ~~who~~ that do not have a particular or special relationship that makes prices of transactions uncharacteristic of ~~the~~ market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

~~47~~54. The best evidence of fair value is ~~normally~~ given by current prices ~~on~~ in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

~~48~~55. In the absence of current prices ~~on~~ in an active market of the kind described in paragraph ~~47~~54, an entity considers information from a variety of sources, including:

- (a) current prices ~~on~~ in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (~~where~~

when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

~~49~~56. In some cases, the various sources listed in the previous paragraph may suggest different conclusions ~~as to~~ about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a ~~relatively narrow~~ range of reasonable fair value estimates.

~~50~~57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property following the completion of construction or development, or after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes ~~will be~~ so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable ~~reliably~~ on a continuing basis (see paragraph ~~55~~62).

~~54~~58. Fair value differs from value in use, as defined in IPSAS 21 *Impairment of Non-Cash-Generating Assets* and International Accounting Standard IAS 36, *Impairment of Assets*<sup>1</sup>. Fair value 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:

Para 58 will be updated when the IPSAS based on IAS 36 is issued.

The footnote will be updated upon the issue of an IPSAS based on IAS 36.

<sup>1</sup>IPSAS 21 defines value in use of a non-cash-generating asset as “the present value of the asset’s remaining service potential”. IAS 36, *Impairment of Assets*, defines value in use as “the present value of ~~estimated the~~ future cash flows expected to ~~arise be derived~~ from ~~the continuing use of an asset and from its disposal at the end of its life or cash-generating unit.~~” The PSC is currently developing a Standard on impairment of cash-generating assets based on IAS 36. ~~The PSC has issued an Invitation to Comment (ITC) *Impairment of Assets* (issued July 2000). Responses received on this ITC will assist the PSC in developing an International Public Sector Accounting Standard on the impairment of assets.~~

- (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.

5259. 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:

- (a) equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than ~~being~~ recognized separately as property, plant and equipment.;
- (b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.;
- (c) the fair value of investment property excludes prepaid or accrued operating lease revenue, ~~as~~ because the entity recognizes it as a separate liability or asset.
- (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 lease liability, to arrive at the fair value of the investment property for accounting purposes.

Subpara (d) was added consequent on the amendments made to current para 49.

5360. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

5461. 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 determine whether to recognize a liability and, if so, how to measure it.

#### Inability to ~~Measure~~ Determine Fair Value Reliably

5562. *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.*

5663. 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 with 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.

5764. *If an entity has previously measured an investment property at fair value, ~~the entity it should~~ shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to*



*develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.*

## Cost Model

**5865.** *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 that the consequential changes to the equivalent para 65 in IAS 40 as a result of issue of IFRS 5 were NOT incorporated per decision in NY meeting. The equivalent paragraph 56 in IAS 40 is currently as follows:

**56.** *After initial recognition, an entity that chooses the cost model shall measure all of its investment properties in accordance with IAS 16's requirements for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with IFRS 5.*

## Transfers

**5966.** *Transfers to, or from, investment property ~~should~~ shall be made when, and only when, there is a change in use, evidenced by:*

- (a) *commencement of owner-occupation, for a transfer from investment property to owner-occupied property;*
- (b) *commencement of development with a view to sale, for a transfer from investment property to inventories;*
- (c) *end of owner-occupation, for a transfer from owner-occupied property to investment property;*
- (d) *commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or*
- (e) *end of construction or development, for a transfer from property in the course of construction or development (covered by IPSAS 17 ~~Property, Plant and Equipment~~) to investment property.*



~~60~~67. A government's use of property may change over time. For example, a government may decide to occupy a building currently used as an investment property or to convert a building currently used as naval quarters or for administrative purposes into a hotel and to let that building to private sector operators. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as property, plant and equipment until its occupation ceased and it is reclassified as an investment property.

~~61~~68. Paragraph ~~59~~66(b)—~~above~~ requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, ~~the entity~~ it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, ~~it~~ the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

~~62~~69. A government property department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the government decided to hold the building for its ability to generate rent revenue and its capital appreciation potential it would be reclassified as an investment property on commencement of any subsequent operating lease.

~~63~~70. Paragraphs ~~64~~71—~~to 69~~76—~~deal with~~ apply to recognition and measurement issues that ~~apply~~ arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

~~64~~71. *For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost*

In para 71, Staff retain "cost" to replace "deemed cost" used by IASB due to the lack of "deemed cost" notion in IPSASs.

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.

~~65~~72. If an owner-occupied property becomes an investment property that will be carried at fair value, an entity—~~should~~ shall apply IPSAS 17—Property, Plant and Equipment up to the date of change in use. The entity—~~should~~ shall treat any difference at that date between the carrying amount of the property—~~under~~ in accordance with IPSAS 17 and its fair value in the same way as a revaluation—~~under~~ in accordance with IPSAS 17.

~~66~~73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity—~~continues to~~ depreciates the property and—~~to~~ recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property—~~under~~ in accordance with IPSAS 17 and its fair value in the same way as a revaluation—~~under~~ in accordance with IPSAS 17.—~~This means that~~ In other words:

- (a) any resulting decrease in the carrying amount of the property is recognized in—~~net~~ surplus/ or deficit—~~for the period~~. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus; and.
- (b) any resulting increase in the carrying amount is treated as follows:
  - (i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in—~~net~~ surplus/ or deficit—~~for the period~~. The amount recognized in—~~net~~ surplus/ or deficit—~~for the period~~ does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized; and.
  - (ii) any remaining part of the increase is credited directly to equity—~~under the heading of~~ in

revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through ~~the statement of financial performance surplus or deficit~~.

~~67~~74. *For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount ~~should~~ shall be recognized in ~~net surplus/ or deficit for the period~~.*

~~68~~75. The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

~~69~~76. *When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount ~~should~~ shall be recognized in ~~net surplus/ or deficit for the period~~.*

## Disposals

~~70~~77. *An investment property ~~should~~ shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.*

~~71~~78. 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 for recognizing revenue from the sale of goods and considers the related guidance in the Appendix to IPSAS 9. IPSAS 13 applies ~~on to~~ a disposal effected by entering into a finance lease ~~or by and to~~ a sale and leaseback.

79. If, in accordance with the recognition principle in paragraph 20, 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

Para 79 was added due to the recognition principle in para 20 now applicable to both initial and subsequent costs.

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.

**7280.**

*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 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).~~*

Consistent with the decision re presentation of disposal gain of PPE made in NY meeting. Staff deleted the last sentence of para 80. It is also consistent with the equivalent para in IAS 40.

**7381.**

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.

**82.**

*An entity applies IPSAS 19 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).*

**83.**

*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.*

Paras 83-84 were added by the ASB.

Subpara (a) will be updated when the IPSAS based on IAS 36 is issued.

84. 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 [IPSAS 21 \*Impairment of Non-Cash-Generating Assets\*](#). [IPSAS 21 requires application of IAS 36 \*Impairment of Assets\* to cash-generating assets;](#)
- (b) retirements or disposals of investment property are recognized in accordance with paragraphs [77-82](#) 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
- (d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs [26-38](#) of this Standard.

## Disclosure

### Fair Value Model and Cost Model

~~74~~85. 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' 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' disclosures ~~about that for~~ for finance leases and ~~a lessors' disclosures about~~ for any operating leases ~~into which that the entity it has granted entered.~~

~~75~~86. *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.*

- (~~ac~~) *when classification is difficult (see paragraph ~~16~~18), the criteria ~~developed by the entity~~ it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;*
- (~~bd~~) *the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity ~~should~~ shall disclose) because of the nature of the property and lack of comparable market data;*
- (~~ce~~) *the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and ~~who~~ has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact ~~should~~ shall be disclosed;*
- (~~df~~) *the amounts ~~included~~ recognized in ~~the statement of financial performance~~ surplus or deficit for:*
  - (i) *rental revenue from investment property;*
  - (ii) *direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and*
  - (iii) *direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;*

A Subpara (f)(iv) re investment property backing liabilities was added to IAS 40 by IASB upon issuing IFRS 4 *Insurance Contracts* as follows. Staff did not incorporate it per decision made in NY meeting.

75(f)(iv) *the cumulative change in fair value recognized in profit or loss on a sale of investment property from a pool of assets in which the cost method is used into a pool in which the fair value model is used (see paragraph 32 C).*



- (eg) *the existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; ~~and~~.*
- (fh) ~~material~~—contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

## Fair Value Model

~~76~~87. In addition to the disclosures required by paragraph ~~75~~86, an entity that applies the fair value model in paragraphs ~~35~~42–~~to 57~~64 ~~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 ~~capitalized~~ subsequent expenditure recognized in the carrying amount of an asset;
- (b) additions resulting from acquisitions through entity combinations;
- (c) disposals;

The amendments to subpara (c) by IASB upon issue of IFRS 5 were NOT incorporated per decision in NY meeting. The equivalent para 76(c) in IAS 40 is as follows:

76(c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;

- (d) *net gains or losses from fair value adjustments;*
- (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~~;*
- (f) *transfers to and from inventories and owner-occupied property; and*
- (g) *other ~~movements~~ changes.*

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



Para 88 was added due to the additional example in current para 59(d).

88. *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 59, 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.*

~~77~~89. *In the exceptional cases referred to in paragraph 62, 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 87 ~~should~~ shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity ~~should~~ shall disclose:*

- (a) *a description of the investment property;*
- (b) *an explanation of why fair value cannot be determined reliably ~~measured~~;*
- (c) *if possible, the range of estimates within which fair value is highly likely to lie; and*
- (d) *on disposal of investment property not carried at fair value:*
  - (i) *the fact that the entity has disposed of investment property not carried at fair value;*
  - (ii) *the carrying amount of that investment property at the time of sale; and*
  - (iii) *the amount of gain or loss recognized.*

## Cost Model

~~78~~90. *In addition to the disclosures required by paragraph ~~75~~86, an entity that applies the cost model in paragraph ~~58~~65 ~~should~~ shall ~~also~~ disclose:*

- (a) *the depreciation methods used;*

- (b) *the useful lives or the depreciation rates used;*
- (c) *the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;*
- (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;*
  - (ii) *additions resulting from acquisitions through entity combinations;*
  - (iii) *disposals;*

The amendments to subpara (d)(iii) by IASB upon issue of IFRS 5 were NOT incorporated per decision in NY meeting. The equivalent para 79 (d)(iii) in IAS 40 is as follows:

79(d)(iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals.

- (iv) *depreciation;*
- (v) *the amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 and IAS 36;*
- (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;*
- (vii) *transfers to and from inventories and owner-occupied property; and*
- (viii) *other ~~movements~~ changes; and*

Subpara (v) will be updated when the IPSAS based on IAS 36 is issued.

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

(e) *the fair value of investment property. In the exceptional cases described in paragraph ~~55~~62, when an entity cannot determine the fair value of the investment property reliably, the entity ~~should~~ shall disclose:*

- (i) *a description of the investment property;*
- (ii) *an explanation of why fair value cannot be determined reliably; and*
- (iii) *if possible, the range of estimates within which fair value is highly likely to lie.*

## Transitional Provisions

### Initial Adoption of Accrual Accounting

~~79.~~

relocated to current para 92.

~~80~~91.

*An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards ~~may~~ shall initially recognize investment property at cost or fair value. For investment properties that were acquired at no cost, or for a nominal cost, cost is the investment property's fair value as at the date of acquisition.*

Consistent with IPSAS 17, Staff changed the sequence of previous paras 79 and 80.

~~79~~92.

*~~Where, on adoption of the accrual basis of accounting for the first time, an entity initially recognizes investment property on adoption of this Standard, ~~the~~ The entity ~~should report~~ shall recognize the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first adopted.~~*

~~81~~93.

*~~When~~ Prior to initially adoption ~~on~~ of this Standard, an entity may recognize investment property on a basis other than cost or fair value as defined in this Standard, or may control investment property that it has not previously recognized. This Standard ~~allows~~ requires entities to initially recognize investment property at cost or fair value as at the date of first adoption of this Standard. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the investment property's fair value as at the date of acquisition. Where the cost of acquisition of an*

Para 93 was relocated from previous para 81. The amendments to this para were to clarify its intent.

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

## Fair Value Model

~~82~~94.

*Under the fair value model, an entity ~~should report~~ shall recognize the effect of adopting 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. In addition:*

- (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 ~~67~~ and the guidance in paragraphs ~~37~~45-46), 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.*

~~83~~95.

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 the opening balance of accumulated surpluses or deficits for the period in which the Standard is first applied. This Standard requires a treatment 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~~. This Standard only

Given that transitional provisions in PSASs still deal with first-time adoption Staff retained para 94 (previous para 82) and also added para 97 per IASB's changes to IAS 40.

The minor change made here was due to the elimination of allowed alternative in proposed IPSAS 3.

encourages such comparative information to be restated in certain circumstances.

- 8496.** When an entity first ~~adopts~~ applies this Standard, the adjustment to the opening balance of accumulated surpluses or deficits includes the reclassification of any amount held in revaluation surplus for investment property.

Para 97 was added by IASB. The wording here is slightly different from that in IAS 40 as IPSAS 16 deals with both first-time adoption of IPSASs and changeover from existing IPSAS 16.

- 97.** *An entity that has previously applied IPSAS 16 (2001) 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, if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property interests in earlier periods, paragraph 94 (a) applies. If the entity has not previously disclosed publicly the information related to those property interests described in paragraph 94 (a), paragraph 94 (b) applies.*

## Cost Model

- 8598.** 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.

Para 99 was introduced to clarify requirements on initial adoption.

- 99.** IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes investment property at cost and chooses to use the cost model in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that property, as if it had always applied these accounting policies.

The wording of para 100 is slightly different from IAS 40 as IPSAS 16 deals with both first-time adoption and changeover from existing IPSAS 16.

- 100.** *For entities that have previously applied IPSAS 16 (2001), the requirements of paragraphs 36-38 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.*

## Effective Date

~~86~~101. An entity shall apply ~~This~~ International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after ~~1 January 2003~~ MM DD YYYY. Earlier application is encouraged. If an entity applies this Standard for a periods beginning before ~~1 January 2003~~ MM DD YYYY, it ~~should~~ shall disclose that fact.

~~87~~102. 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.

## Withdrawal of IPSAS 16 (2001)

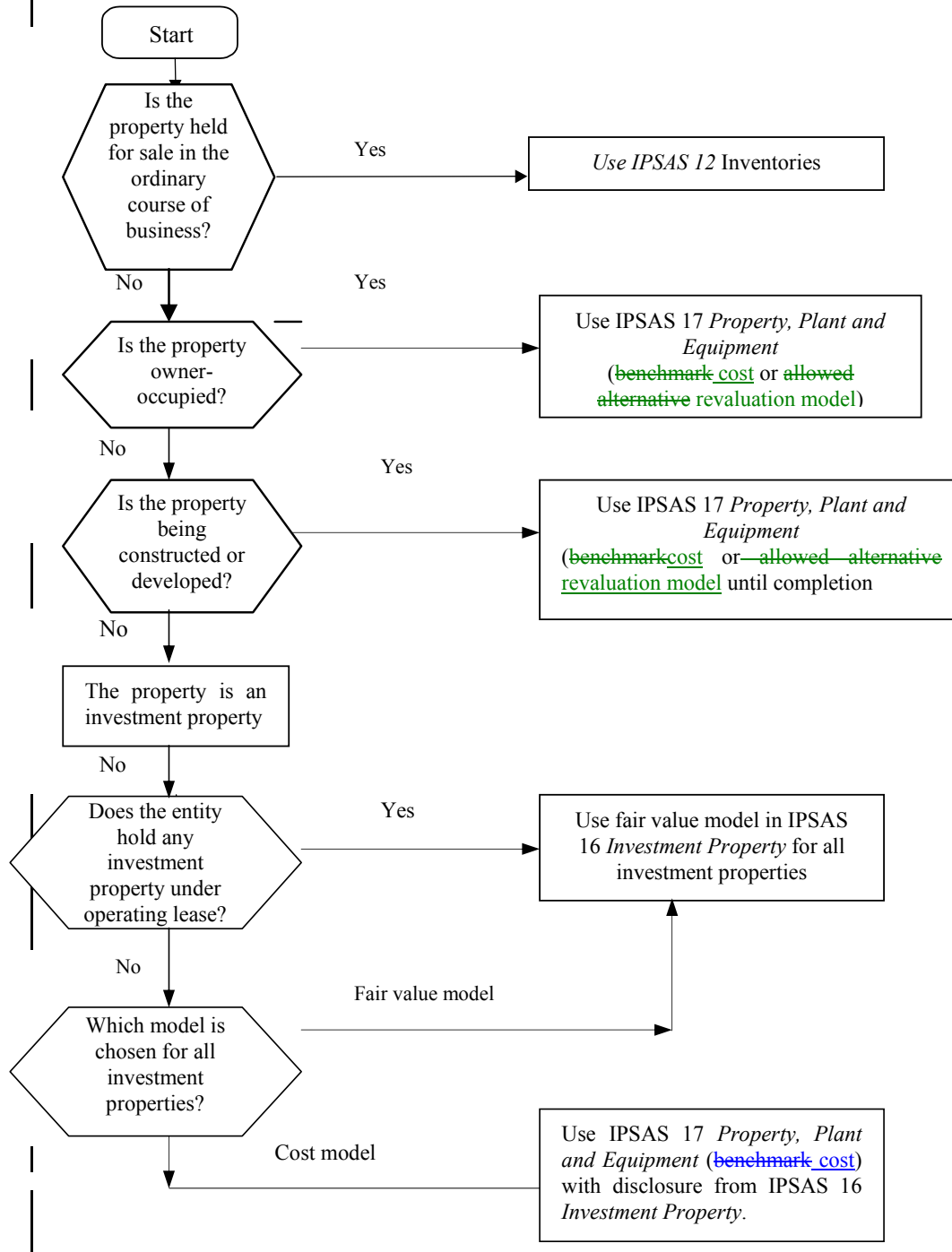
103. This Standard supersedes IPSAS 16 *Investment Property* issued in 2001.

The withdrawal para was added per decision made in NY meeting.

## Appendix

### Illustrative Decision Tree

*The decision tree accompanies, but is not part of, IPSAS 16. 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.*





## Comparison with IAS 40

International Public Sector Accounting Standard IPSAS 16 *Investment Property* is drawn primarily from International Accounting Standard IAS 40 (~~2000~~2003), *Investment Property*. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service which also generates cash inflows. Such property is accounted for in accordance with IPSAS 17 *Property, Plant and Equipment*.

~~• IAS 40 requires subsequent expenditures on investment property 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 16 adopts a similar treatment, but refers to the most recently assessed standard of performance rather than that originally assessed as the benchmark.~~

IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 17. IAS 40 only contains transitional provisions for entities that have already used IFRSs. IFRS 1 deals with first time adoption of IFRSs. IPSAS 16 includes additional transitional provisions which specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits. ~~The transitional provisions also allow entities to recognize investment property at fair value on first adopting this Standard.~~

- At the time of issuing this Standard, the PSC has not considered the applicability of IAS 41, *Agriculture*, to public sector entities, therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issuing issue of International Accounting Standard IAS 41.

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

IFRS 1 also provides this relief to entities who choose cost model.

Transitional provisions in IPSASs deal with both first-time adoption and changeover, while transitional provisions in IFRSs only apply to entities that have applied IFRSs. The first time application of IFRSs is specified in IFRS 1.

- At the time of issuing this Standard, the PSC has not considered the applicability of IFRS 4 *Insurance Contracts*, to public sector entities, therefore, IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issue of IFRS 4.
- At the time of issuing this Standard, the PSC has not considered the applicability of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities, therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issue of IFRS 5.
- Commentary additional to that in IAS 40 has been included in IPSAS 16 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant examples are the use of the terms ~~“entity”~~, “revenue”, “statement of financial performance” and “statement of financial position” in IPSAS 16. The equivalent terms in IAS 40 are ~~“enterprise”~~, “income”, “income statement” and “balance sheet”.