



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: OCTOBER 6, 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: MATTHEW BOHUN
SUBJECT: GENERAL IMPROVEMENTS PROJECT

ACTION REQUIRED

The Board is asked to:

- **Review** the table of other comments on 26 (IPSASs 6, 7, 8, 12, 13, 14, 16 and 17);
- **Review** the draft IPSAS 6, IPSAS 7, IPSAS 8, IPSAS 12, IPSAS 13, IPSAS 14, IPSAS 16 and IPSAS 17; and
- **Approve** the draft documents for issue with the 2007 Handbook of International Public Sector Pronouncements.

AGENDA MATERIAL:

	Pages
14.2 Table of Other Comments – Preface, IPSASs 6, 7, 8, 12, 13, 14, 16 and 17.	14.5 – 14.30
14.3 Draft IPSAS 6, “Consolidated and Separate Financial Statements” (Marked for changes from the ED)	14.31 – 14.68
14.4 Draft IPSAS 7, “Investments in Associates” (Marked for changes from the ED)	14.69 – 14.90
14.5 Draft IPSAS 8, “Interests in Joint Ventures” (Marked for changes from the ED)	14.91 – 14.118
14.6 Excerpt of IPSAS 12 from ED 26 (Marked for changes from ED 26)	14.119 – 14.123
14.7 Draft IPSAS 12, “Inventories” (Marked for changes from superseded IPSAS 12)	14.124 – 14.143
14.8 Excerpt of IPSAS 13 from ED 26 (Marked for changes from ED 26)	14.144 – 14.153
14.9 Draft IPSAS 13, “Leases” (Marked for changes from superseded IPSAS 13)	14.154 – 14.196
14.10 Excerpt of IPSAS 14 from ED 26 (Marked for changes from ED 26)	14.197 – 14.199
14.11 Draft IPSAS 14, “Events after the Reporting Date” (Marked for changes from superseded IPSAS 14)	14.200 – 14.217
14.12 Draft IPSAS 16, “Investment Property” (Marked for changes from superseded IPSAS 16)	14.218 – 14.253
14.13 Draft IPSAS 17, “Property, Plant and Equipment” (Marked for changes from superseded IPSAS 17)	14.254 – 14.296

BACKGROUND

ED 26, “Improvements to International Public Sector Accounting Standards” was issued by the IPSASB in September 2005, with comments requested by January 31, 2006 twenty responses were received. These were reviewed by the IPSASB at its meetings in March and July 2006 and directions provided to staff on preparing the final draft IPSASs. Drafts of the revised Preface and IPSASs 1, 3 and 4 were approved at the July meeting, with a request that the remaining eight IPSASs be presented at this meeting. The eight IPSASs are attached at items 14.3 – 14.13.

In ED 26, full versions of IPSASs 6, 7, 8, 16 and 17 were presented. The attached drafts are clean versions of the ED, marked up for any changes being proposed by staff. In ED 26 excerpts of IPSASs 12, 13 and 14 were published. At items 14.6, 14.8 and 14.10, clean versions of these excerpts, marked for changes being proposed by staff are attached. At Items 14.7, 14.9 and 14.11, full versions of the superseded IPSASs, marked up for all the changes are presented.

Only changes that are consistent with the IPSASB policy on Improvements (see below) were considered. The text used for comparison is that published in the December 2003 “Improvements to International Accounting Standards” issued by the IASB. Versions of the improved IPSASs published in any edition of the IASB’s handbook may reflect other changes as well as those related to the Improvements Project.

As noted at the meeting in March, respondents generally agreed with the changes proposed.

IPSASB Policy on Improvements

In developing EDs 25 and 26, the PSC/IPSASB adopted a policy of only making changes to the draft IPSASs that were included in the IASB’s General Improvements Project and that resulted in an amendment to the related IAS at December 2003. Changes that were made to IASs subsequent to December 2003, such as those made on the issue of IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations” have not been included. The exception to this policy is where the IASB changed a paragraph or a provision in an IAS that the IPSASB (or PSC) had changed in the IPSAS, in which cases the paragraph or provisions in the IPSAS are retained.

Additional Comments

At the last meeting, members reviewed comments made in respect of the specific matters for comment identified in each ED. The table of other comments attached provides a summary of the additional comments made by respondents and the staff response to the comments. In addressing these comments, staff applied the IPSASB’s policy on improvements (see above). Where a respondent has suggested a change that was not included in the IASB’s improvement program, that suggestion has not been taken up as it would be contrary to the IPSASB’s policy.

In evaluating whether to include a proposed amendment, staff checked the IASB’s ED, the December 2003 version of the IASs, the PSC agenda papers for the appropriate meeting, and the minutes of those meetings. In some cases, the original agenda papers inadvertently

omitted an amendment that was subsequently made as part of the IASB Improvements Project, these amendments have now been included in the draft IPSASs, as noted in attachment 14.2.

Staff has included Basis for Conclusions sections in each of the IPSASs. Whilst this is repetitive in most cases, it explains why certain major proposals were not accepted and includes a paragraph on the IPSAS rationale underlying the improvements. Including a Basis for Conclusions in each IPSAS ensures that if an IPSAS is read on its own, users are aware of the reasons for the changes to the IPSAS.

Each draft IPSAS also includes a Table of Concordance, as did each revised IAS included in the December 2003 booklet referred to above. This table will be published with the revised IPSASs, but will be dropped from subsequent editions of the *Handbook of International Public Sector Pronouncements*.

The Comparison with the appropriate IAS has been amended to note that the IPSASs do not use the term “income” which has a broader meaning than the term “revenue”.

ISSUES

Equity Accounting

At the meeting in July, the IPSASB directed staff to retain, for the draft presented at this meeting, the equity method of accounting for controlled entities in the separate financial statements of a controlling entity. This has been done, an appropriate basis for conclusions has also been included as well as a bullet point in the Comparison with IAS 27.

APPLICATION DATE

At the meeting in July, staff proposed that the application date for the revised IPSASs be January 1, 2008. IPSASB members expressed concern that a large number of IPSASs would be applicable from that date and asked staff to brief the IPSASB on the IPSASs with an effective date of January 1, 2008. At this point the following IPSASs would have an application date of January 1, 2008:

- Preface to International Public Sector Accounting Standards
- IPSAS 1, “Presentation of Financial Statements”
- IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”
- IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”
- IPSAS 6, “Consolidated and Separate Financial Statements”
- IPSAS 7, “Investments in Associates”
- IPSAS 8, “Interests in Joint Ventures”

- IPSAS 12, “Inventories”
- IPSAS 13, “Leases”
- IPSAS 14, “Events after the Reporting Date”
- IPSAS 16, “Investment Property”
- IPSAS 17, “Property, Plant and Equipment”
- IPSAS 22, “Disclosure of Financial Information about the General Government Sector”

This means that twelve IPSASs are scheduled to be effective from January 1, 2008. In fact, the changes to IPSASs 12 – 14, are relatively minor, and IPSAS 22 is an optional IPSAS, reducing the IPSASs with major changes to eight. These changes have been well publicized, particularly among those entities that apply IPSASs, and the IPSASs do contain transitional provisions to ease the application process. Staff continues to recommend an application date of January 1, 2008.

RECOMMENDATION

Staff recommends that the IPSASB agree to reissuing the attached drafts as amended, with the 2007 Handbook of International Public Sector Pronouncements, with a suggested effective date of January 1, 2008. The individual IPSASs may be made available on the IFAC website prior to the publication of the 2007 Handbook.



Matthew Bohun
TECHNICAL MANAGER

ATTACHMENT 14.2

Table of Other Comments

Question/ Paragraph	Submission Number	Name	Respondent Comment	Staff Response
All IPSASs	10	ASB & SAICA	The IPSAS comparison with the equivalent IAS has not been amended and exposed in all instances. E.g., the IFRSs contain transitional provisions for entities that have already used IFRSs, whereas the equivalent IPSASs contains transitional provisions for both first time adoption and change over from the previous IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
All IPSASs	10	ASB & SAICA	Application of IFRSs by GBEs: the amendment to explain that GBEs need to apply IFRSs has not been included in all IPSASs (e.g. 12 & 13).	Staff agree and will process the amendment for review by the IPSASB.
All IPSASs	10	ASB & SAICA	Introduction paragraph to IPSASs - the paragraph has not been deleted in all instances.	Staff agree and will process the amendment for review by the IPSASB.
All IPSASs	10	ASB & SAICA	A table of concordance has been included in some of the exposed IPSASs, but not all.	The ED included tables of concordance in those IPSASs where the equivalent IAS had a table of concordance. The IASB included the tables of concordance in its handbook in 2004, but has omitted them from 2005. The IPSASB will decide whether to follow this approach.

All IPSASs	10	ASB & SAICA	IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" was issued after December 2003, and subsequent amendments to IASs as a result of IFRS 5 have not been taken into account in the equivalent IPSASs. However, inconsistent reference is made to the standard on non-current assets held for sale and discontinued operations in the exposed IPSASs, e.g. IPSAS 16 refers to "disposals" whereas IPSAS 17 refers to "held for disposal", and IPSAS 8 refers to "held exclusively with a view to its disposal".	While there is a case for doing this, making this amendment would not be consistent with the IPSASB's improvements policy. The IPSASB decided to make changes as at December 31, 2003. These anomalies were rectified by the IASB subsequent to that date with the issuance of IFRS 5. Staff do not propose to change the IPSASs in respect of changes made by IFRS 5, (unless the IPSASB directs otherwise).
All IPSASs	10	ASB & SAICA	Objective Paragraph: ASB & SAICA recommend that an objective paragraph be included in all the exposed IPSAS, even though the equivalent IASs many not have been amended during the IAS improvements project. This will ensure consistency in the IPSASs and will allow the users of the IPSASs to obtain a broad understanding of the content of the particular IPSAS.	The suggested change is beyond the scope of the improvements project as specified by IPSASB. Staff do not propose any change in respect of this comment.
All IPSASs	10	ASB & SAICA	"Should" and "shall": In IPSASs 12, 13 and 14, only a mark-up of the relevant paragraphs was exposed for comment. In these IPSAS, various bold paragraphs should have been amended from "should" to "shall" as a result of the improvements project. ASB & SAICA recommend that where appropriate, all improved IPSASs be amended.	Staff agree and will process the amendment for review by the IPSASB.

All IPSASs	10	ASB & SAICA	Exposing parts of an IPSAS: For IPSAS 12, 13 and 14, mark ups of the paragraphs to be amended was exposed, the same process the IASB used. Consistent with respondents to the IASB's ED, ASB & SAICA do not find this user friendly and would prefer the exposure of the complete document.	Noted - The IPSASB will need to make a decision on this for any future amendments to IPSASs. It should be noted that the IPSASB did not wish to invite comments on parts of the IPSASs not being amended.
All IPSASs	10	ASB & SAICA	Summary of Main Changes was not in all instances similar to the content in the equivalent IAS, e.g. in IPSAS 4, the last bullet under the section dealing with functional currency does not agree with the equivalent paragraph in IAS 21, which states that a foreign operation is now redundant. ASB & SAICA recommend that the summary of main changes be made similar to the equivalent IAS.	The Summary of Main Changes section in each revised IPSAS will be reviewed during the process of drafting the final IPSASs, however, it should be noted that the IPSASB made its own decision about some of these matters when issuing original IPSAS and changed text from IAS and confirmed those changes when finalizing ED 26.
IPSAS 6.3	10	ASB & SAICA	Although paragraph 3 of IPSAS 6 is similar to the equivalent IAS (IAS 6.3), IPSAS 6 uses public sector specific terminology. However, certain terms which are also relevant in the public sector have been omitted. We therefore recommend that the term "investments" be placed after the wording; "....."accounting for"..... in the first sentence in order to be consistent with the rest of the standard.	This paragraph was amended by the PSC in developing the superseded IPSAS 6. Staff do not propose any amendment.
IPSAS 6.8 - 11	10	ASB & SAICA	Paragraphs 8 – 11 of IPSAS 6 are the same with the equivalent IAS 27 paragraphs (IAS 27.5 – 8), however, IPSAS 6 has a heading for these paragraphs which is not contained in IAS 27. We recommend that the heading in IPSAS 6 should be deleted.	This heading is consistent with the IPSASB's format in other IPSASs.

IPSAS 6.20 - 25, 62	10	ASB & SAICA	<p>Paragraphs 21 and 23 deal with the exclusion of a controlled entity from consolidation where temporary control exists. IAS 27 no longer contains such requirements as there were eliminated through the IASB improvements project. We therefore recommend that paragraphs 21, 23, 24 and 25 be deleted from IPSAS 6 as there is no public sector specific reason to retain such provisions.</p> <p>The following consequential amendments should be effected as a result of deleting the above mentioned paragraphs:</p> <ul style="list-style-type: none"> • paragraph 20 should be amended (delete the part that states that; “except those referred to in paragraph 21”); and • delete sub-paragraph IPSAS 6.62 (b). 	This change to IAS 27 was effected after the Improvements Project. No change proposed.
IPSAS 6.42	11	South Africa - IPFA	Consider relocating this paragraph to after paragraph 26 (similar to IAS 27 presentation).	The PSC considered this during the development of ED 26 and decided to adopt this presentation.
IPSAS 6.43 - 57	10	ASB & SAICA	<p>Paragraphs 52 and 53 of IPSAS 6 are similar to the equivalent IAS (IAS 27.31 and 32). These paragraphs contain the main principles for the accounting of an investment that ceases to be a controlled entity and does not become either an investment in an associate or an interest in a joint venture. Paragraphs 31 and 32 of IAS 27 are in bold italic text, whilst the equivalent IPSAS 6 paragraphs are not in bold italic text. We recommend that paragraph 52 of IPSAS 6 should also be in bold italic text to be in line with the equivalent IAS 27 paragraph (IAS 27.31 as there is no public sector reason to deviate from IAS 27.</p>	The IPSASB decided to retain this paragraph when it developed ED 26. Staff do not propose changes.

IPSAS 6.46	11	South Africa - IPFA	<p>This paragraph currently states: 'Balances and transactions between entities within the economic entity, including revenues from sales, and transfers, and revenues recognized consequent to an appropriation or other budgetary authority, expenses and dividends, are eliminated in full.'</p> <p>Consider inserting the word 'dividends or similar distributions' to be consistent with terminology used elsewhere in the standard.</p>	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 6.52-53	11	South Africa - IPFA	These paragraphs should be in bold, so as to align them with IAS 27.	The PSC considered this during the development of ED 26 and decided to adopt this presentation.
IPSAS 6.62(g)	11	South Africa - IPFA	<p>This paragraph currently states: 'and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends or to repay loans or advances.'</p> <p>Consider inserting the word 'cash dividends or similar distributions' to be consistent with terminology used elsewhere in the standard.</p>	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 7.7	11	South Africa - IPFA	<p>The definition of significant influence currently states: 'Significant influence (<u>for the purposes of this Standard</u>)....'</p> <p>A standard line is included at the start of the definitions section that states: 'The following terms are used in this Standard with the meanings specified:'</p> <p>It is therefore unnecessary to include the wording in brackets in the definition of 'significant influence'.</p>	The definition of "significant influence" was developed by the PSC and staff do not propose changing it.

IPSAS 7.21	10	ASB & SAICA	Paragraph 21 of IPSAS 7 (IPSAS 28.21) is similar to the equivalent paragraph in IAS 28. In view of our response to question 3 above, we would like to recommend that IPSAS 28.21 be aligned to IAS 28.15.	The paragraphs in IAS 28 and IPSAS 7 appear aligned to staff.
IPSAS 7.39	10	ASB & SAICA	Reference to IAS 39 in IAS 28.33 has been replaced by the wording “ based on IAS 36.....” in IPSAS 28. IAS 36 scoped out financial instruments and therefore the reference to the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments is inappropriate. We therefore recommend that the additional material in the last two sentences in IPSAS 7.39 should be deleted, or alternatively, that reference be made to the relevant international or national standards dealing with “entity combinations” and “intangible assets”.	This change to IAS 28 was effected after the Improvements Project. No change proposed.
IPSAS 7.39(b)	11	South Africa - IPFA	This paragraph currently states: 'the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.' Consider inserting the word 'dividends or similar distributions' to be consistent with terminology used elsewhere in the standard.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 7.43	11	South Africa - IPFA	The paragraph currently states: "nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;" Consider inserting the word 'dividends or similar distributions' to be consistent with terminology used elsewhere in the standard.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 7.44	11	South Africa - IPFA	The last line of the paragraph states: 'The investor's share of any discontinuing operations of such associates...' This should be amended to <u>discontinued</u> so as to align with the text of IAS 28, although this would take into account the consequential amendments to IAS 28 as a result of the issue of IFRS 5.	This change to IAS 28 was effected after the Improvements Project. No change proposed.
IPSAS 7.45	11	South Africa - IPFA	This paragraph makes reference to a 'statement of changes in equity' – In line with IPSAS 1, this reference should be to 'statement of changes in <u>net assets/equity</u> '	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 8.3	10	ASB & SAICA	Sub-paragraph 2 (a) of IAS 31 (IAS 31.2 (a)) refers preparers to the standard on non-current assets held for sales and discontinued operations (IFRS 5). This standard contains requirements that are similar to those contained in IPSAS 8.32 (a). IFRS 5 also contains useful guidance on the extension of the period required to complete a sale that we believe may also be relevant to investments that are acquired with a view to their disposal within twelve months from acquisition. We therefore recommend that IPSAS 8.3 (a) should be aligned with (IAS 31.2 (a) and that the standard text that refers to an international or national accounting standard dealing with non-current assets held for sale and discontinued operations, be included in the paragraph.	This change to IAS 31 was effected after the Improvements Project. No change proposed.
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IPSAS 8.6	11	South Africa - IPFA	<p>The definition of the equity method currently states: 'The equity method <u>(for the purposes of this Standard)</u>....' A standard line is included at the start of the definitions section that states: 'The following terms are used in this Standard with the meanings specified:' It is therefore unnecessary to include the wording in brackets in the definition of 'equity method'.</p> <p>The definition of significant influence currently states: 'Significant influence (for the purposes of this Standard)....' A standard line is included at the start of the definitions section that states: 'The following terms are used in this Standard with the meanings specified:' It is therefore unnecessary to include the wording in brackets in the definition of 'significant influence'.</p>	The definition of "the equity method" was developed by the PSC and staff do not propose changing it.
IPSAS 8.7-9	11	South Africa - IPFA	Consider re-locating paragraphs 7, 8 and 9 to after the discussion of joint control in paragraph 13. The notion of 'binding arrangement' is introduced in paragraph 13 dealing with joint control. This would also be consistent with the provisions of IAS 31.	The PSC considered this during the development of ED 26 and decided to adopt this presentation.

IPSAS 8.47 - 50	10	ASB & SAICA	<p>Paragraphs 47 – 50 of IPSAS 8 deals with the accounting requirements for interests in joint ventures when there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months and requires the interest to be classified as held for trading. IAS 31 however requires such interests to be classified as held for sale in accordance with IFRS 5. We therefore recommend that IPSAS 8.47 - 49 should be aligned with IAS 31.42 and 43 should incorporate the standard text that refers to an international or national accounting standard dealing with non-current assets held for sale and discontinued operations.</p> <p>In addition, we recommend that paragraph 50 of IPSAS 8 should be deleted.</p>	This change to IAS 31 was effected after the Improvements Project. No change proposed.
IPSAS 12.2	10	ASB & SAICA	During the IAS improvements project, paragraph 2 of the equivalent IAS has been amended. This amendment has not been incorporated in paragraph 2 in this IPSAS. We therefore recommend that the amended wording in IAS 2 be included in paragraph 2 as there is no public specific reason to deviate from IAS 2.	IPSAS 12.2 nad IAS 31.2 are virtually identical. Staff do not propose any change.
IPSAS 12.21(b)	10	ASB & SAICA	The wording “prior to” has been amended to “before” in paragraph 16 (b) of the equivalent IAS but this amendment has not been incorporated in the former paragraph 21(b) of this IPSAS. The amended wording in IAS 2 should be included in former paragraph 21(b) as there is no public specific reason to deviate from IAS 2.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 12.22	10	ASB & SAICA	The wording in IAS 2 paragraph 17 has also been amended during the IAS improvements project, but a similar amendment was not included in former paragraph 22 of this IPSAS. We recommend that the amended wording in IAS 2 be included in former paragraph 22 as there is no public specific reason to deviate from IAS 2.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 12.28	10	ASB & SAICA	The wording "in this case" in paragraph 28 of this IPSAS has not been included in the equivalent IAS paragraph (paragraph .20). We recommend that wording similar to the equivalent IAS paragraph should be included in paragraph 28 of this IPSAS.	This phrase was omitted by the PSC in developing ED 26, staff do not propose any amendment.
IPSAS 12.26	10	ASB & SAICA	Paragraph 24 of the equivalent IAS has been amended during the IAS improvements project. This amendment should also be incorporated in former paragraph 26 in this IPSAS.	The changes proposed by the IASB were considered by the PSC during the development of ED 26. Staff do not propose any amendment.
IPSAS 12.28	10	ASB & SAICA	Additional wording has been included in paragraph 25 of the equivalent IAS to explain the principle in that paragraph. This additional wording should also be included in former paragraph 28 of this IPSAS.	The changes proposed by the IASB were considered by the PSC during the development of ED 26. Staff do not propose any amendment.
IPSAS 12.29	10	ASB & SAICA	The word "which" in former paragraph 29 of this IPSAS has been amended to "that" in the equivalent IAS paragraph (paragraph .27), but this amendment was not included in this IPSAS. We recommend that the amended wording be included in former paragraph 29 of this IPSAS.	The changes proposed by the IASB were considered by the PSC during the development of ED 26. Staff do not propose any amendment.
IPSAS 12.29	10	ASB & SAICA	An additional paragraph has also been included under the cost formula section in the equivalent IAS (paragraph 26) that was omitted in this IPSAS. We recommend that paragraph 26 of IAS 2 should also be included in this IPSAS.	The changes proposed by the IASB were considered by the PSC during the development of ED 26. Staff do not propose any amendment.

IPSAS 12.31	10	ASB & SAICA	Paragraph 29 of the equivalent IAS has been amended during the IAS improvements project. This amendment has not been incorporated in former paragraph 31 in this IPSAS, and we recommend that the amended wording be included in former paragraph 31 of this IPSAS.	The PSC amended paragraph 12.31 during development of the superseded IPSAS 12, staff do not propose any amendment.
IPSAS 12.32	10	ASB & SAICA	The wording “as to” in former paragraph 32 of this IPSAS has been amended to “of the” in the equivalent IAS paragraph (paragraph 30), but this amendment was not included in this IPSAS. We recommend that the amended wording be included in former paragraph 32 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 12.33	10	ASB & SAICA	Paragraph 31 of the equivalent IAS has deleted the reference to “contingent liabilities”. This amendment has not been included in former paragraph 33 of this IPSAS, and we therefore recommend that the reference to “contingent liabilities” should also be deleted from former paragraph 33 of this IPSAS.	The PSC amended paragraph 12.33 during development of the superseded IPSAS 12, staff do not propose any amendment.
IPSAS 12.34	10	ASB & SAICA	The wording “will exceed” in former paragraph 34 of this IPSAS has been amended to “exceeds” in the equivalent IAS paragraph (paragraph 32). This amendment should also be included in former paragraph 34 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 12.41	10	ASB & SAICA	The word “simply” in former paragraph 41 of this IPSAS has been deleted in the equivalent IAS paragraph (paragraph 37) during the IAS improvements project, but this amendment was not included in this IPSAS. We recommend that the word “simply” should also be deleted from former paragraph 41 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 12.43	10	ASB & SAICA	Paragraph 38 of the equivalent IAS has been amended during the IAS improvements project. These amendments should also be incorporated in former paragraph 43 in this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.3	10	ASB & SAICA	The wording “on the other hand” has been deleted in paragraph 3 of the equivalent IAS but this amendment has not been incorporated in former paragraph 3 of this IPSAS. We therefore recommend that the amended wording in IAS 17 be included in former paragraph 3 as there is no public specific reason to deviate from IAS 17.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.8	10	ASB & SAICA	The following amendments have been incorporated in the definitions of IAS 17 but have not been incorporated in the equivalent definition of this IPSAS: - finance lease - “incident” has been amended to “incidental”; - non-cancellable lease – “such” was deleted and “at the inception of the lease” was included in the new IAS definition; - lease term – “which” has been amended to “when” We recommend that these amendments should also be incorporated in paragraph 8 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.16	10	ASB & SAICA	The word “which” has been amended to “that” in paragraph 11(c) of the equivalent IAS but this amendment has not been incorporated in paragraph 16 of this IPSAS. We recommend that the amended wording in IAS 17 be included in former paragraph 16 as there is no public specific reason to deviate from IAS 17.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 13.24	10	ASB & SAICA	The word “deemed” has been included in paragraph 19 of the equivalent IAS but this amendment has not been incorporated in the paragraph 24 of this IPSAS. We therefore recommend that the amended wording in IAS 17 be included in former paragraph 24 as there is no public specific reason to deviate from IAS 17.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.25 (former)	10	ASB & SAICA	The wording “as in”, “included as part of” and “under the lease” has been amended in paragraph 24 of the equivalent IAS but these amendments have not been incorporated in former paragraph 25 of this IPSAS. These amendments should also be incorporated in former paragraph 25 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.27 (former)	10	ASB & SAICA	The wording “some form of approximation may be used” has been amended to “a lease may use some form of approximation” in paragraph 26 of the equivalent IAS but this amendment has not been incorporated in former paragraph 27 of this IPSAS. This amendment should also be incorporated in former paragraph 27 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.28 (former)	10	ASB & SAICA	The words “which” and “on the basis set out in” have been amended to “that” and “ in accordance with” in paragraph 27 of the equivalent IAS but these amendments have not been incorporated in former paragraph 28 of this IPSAS. These amendments should also be incorporated in former paragraph 28 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 13.30 (former)	10	ASB & SAICA	<p>The word “inception” has been amended to “commencement” in paragraph 29 of the equivalent IAS but this amendment has not been incorporated in former paragraph 30 of this IPSAS. The reference to “in the statement of financial performance” was also deleted from the equivalent paragraph 29. These amendments should also be incorporated in former paragraph 30 of this IPSAS.</p> <p>The wording “as an expense” in IAS 17 paragraph 31(c) should replace “in the statement of financial performance” in former paragraph 32(d) of this IPSAS. Also, “significant” and “payments” has been amended to “material” and “payable” in paragraph 31(e) of IAS 17, these amendments have not been incorporated in former paragraph 32(f) of this IPSAS. These amendments should also be incorporated in former paragraphs 31 and 32 of this IPSAS.</p>	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.32 (former)	10	ASB & SAICA	<p>The wording “as an expense” in IAS 17 paragraph 31(c) should replace “in the statement of financial performance” in former paragraph 32(d) of this IPSAS. Also, “significant” and “payments” has been amended to “material” and “payable” in paragraph 31(e) of IAS 17, these amendments have not been incorporated in former paragraph 32(f) of this IPSAS. These amendments should also be incorporated in former paragraphs 31 and 32 of this IPSAS.</p>	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 13.33 (former)	10	ASB & SAICA	During the IAS improvements project, paragraph 32 of the equivalent IAS has been amended. This amendment has not been incorporated in former paragraph 33 in this IPSAS. We recommend that former paragraph 33 should be amended in line with the wording of paragraph 32 of IAS 17.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.34 (former)	10	ASB & SAICA	Reference to the "income statements" has been deleted during the IAS improvements project in paragraph 33 and 34 in IAS 17, but the reference to "statement of financial performance" has not been deleted in former paragraph 34 and 35 of this IPSAS. This amendment should be incorporated in the IPSAS 13.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.36 (former)	10	ASB & SAICA	The word "payments" has been amended to "payable" in paragraph 35(d)(i) of IAS 17. This amendment was however not incorporated in former paragraph 36(d)(i) of this IPSAS. We recommend that this amendment should be incorporated in former paragraph 36 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.41 (former)	10	ASB & SAICA	The word "incident" has been amended to "incidental" in paragraph 37 of the equivalent IAS but this amendment has not been incorporated in the former paragraph 41 of this IPSAS. This amendment should also be incorporated in former paragraph 41 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.42 & 43 (former)	10	ASB & SAICA	The phrase "outstanding in respect of" has been deleted in paragraph 39 and 40 of the equivalent IAS but this amendment has not been incorporated in former paragraph 42 and 43 of this IPSAS. This amendment should also be incorporated in former paragraphs 42 and 43 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.46 (former)	10	ASB & SAICA	The word "for" has been amended to "to" in paragraph 42 of IAS 17. This amendment should also be incorporated in the former paragraph 46 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 13.49 (former)	10	ASB & SAICA	The word “recorded”, “a finance lease” and commercial” in paragraph 45 of IAS 17 has been amended to “recognised”, “the lease” and “market” but the amended wording have not been incorporated in former paragraph 49 in this IPSAS. These amendments should also be incorporated in the former paragraphs of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.50 (former)	10	ASB & SAICA	In paragraph 45 of IAS 17, “income recognised as gain or loss on sale would be” has been amended to “selling profit”. These amendments should also be incorporated in former paragraph 50 of this IPSAS.	The PSC amended this paragraph when it developed the superseded version of IPSAS 13. Staff do not propose any amendment.
IPSAS 13.52(e) (former)			Paragraph 47(a) of the equivalent IAS has been amended during the IAS improvements project but the amendment has not been incorporated in former paragraph 52(a) in this IPSAS. “in the period” has been included in paragraph 47(e) of IAS 17, but a similar amendment has not been included in former paragraph 52(e) of this IPSAS. These amendments should also be incorporated in former paragraph 47 of this IPSAS.	Staff agree regarding paragraph 52(a) and will process the amendment for review by the IPSASB. Staff propose no change to paragraph 52(e) which was changed during the development of the superseded IPSAS 13.
IPSAS 13.52(f) (former)	10	ASB & SAICA	The word “significant” has been amended to “material” in paragraph 47(f) of IAS 17, but this amendment has not been included in former paragraph 52(f) of this IPSAS. This amendment should also be incorporated in former paragraph 52 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.56 (former)	10	ASB & SAICA	The wording “is recognised in income” has been amended to “is recognised” in paragraph 51 of the equivalent IAS. This amendment should also be incorporated in former paragraph 56 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 13.58 (former)	10	ASB & SAICA	The wording “on a basis consistent”, “the depreciation charge” and “on the basis set out in” in paragraph 53 of IAS 17 has been amended to “be consistent”, “depreciation” and “in accordance with” but these amendments have not been incorporated in the former paragraph 58 of this IPSAS. We recommend that these amendments should also be incorporated in former paragraph 58 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.61(b) (former)	10	ASB & SAICA	The phrase “in the period” has been included in paragraph 56(b) of IAS 17. A similar amendment should be included in former paragraph 61(b) of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.61(c) (former)	10	ASB & SAICA	The word “significant” has been amended to “material” in paragraph 56(c) of IAS 17, but this amendment has not been included in former paragraph 61(c) of this IPSAS. This amendment should also be incorporated in former paragraph 61 of this IPSAS.	The word "significant" was deleted from IAS 17.56(c), however, the word "material" was not added. No change required.
IPSAS 13.62 (former)	10	ASB & SAICA	During the IAS improvements project, paragraph 58 of the equivalent IAS has been amended. This amendment should also be incorporated in former paragraph 62 in this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.63 (former)	10	ASB & SAICA	The phrase “income in the financial statements” has been amended to “income” in paragraph 59 of the equivalent IAS but this amendment has not been incorporated in former paragraph 63 of this IPSAS. We recommend that this amendment should also be incorporated in former paragraph 63 of this IPSAS	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 13.66 (former)	10	ASB & SAICA	The word “established” has been deleted in paragraph 62 of IAS 17, but this amendment has not been incorporated in former paragraph 66 of this IPSAS. We recommend that this amendment should also be incorporated in former paragraph 66 of this IPSAS	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.69 (former)	10	ASB & SAICA	The word “significant” has been amended to “material” in paragraph 65 of IAS 17. This amendment should also be included in former paragraph 69 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 13.70 (former)	10	ASB & SAICA	The reference to IAS 8 has been amended to IAS 1 in paragraph 66 of IAS 17, but reference is still made to IPSAS 3 in former paragraph 70. We recommend that the reference should also be amended in former paragraph 70 of this IPSAS	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 14.7 (former)	10	ASB & SAICA	Authorising the financial statements for issue: An example has been included to explain the principle in paragraph 5 and 6 of the equivalent IAS. We recommend that this example also be incorporated, amended with public sector specific wording, in former paragraph 7 of this IPSAS.	This paragraph was amended by the PSC during the development of the superseded IPSAS 14. No change.
IPSAS 14.14 (former)	10	ASB & SAICA	Dividends/distributions: The heading to paragraph 14 refers to dividends/distributions. In the explanatory paragraphs to this heading, reference is only made to distributions (for example paragraph 14) as opposed to dividends/distributions. We recommend that reference should be made throughout this IPSAS to dividends/distributions.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 14.31(e)	10	ASB & SAICA	A reference to the relevant national and international standard on classification of assets as held for sale may be appropriate here.	This paragraph was amended by the PSC during the development of the superseded IPSAS 14. No change.

IPSAS 16.7	10	ASB & SAICA	The definition for "cost" in this IPSAS should be amended in line with the definition in IAS 40. We further recommend that the wording "for the purpose of this Standard" in the definition of carrying amount be deleted.	Staff agree re the definition of "cost" and will process the amendment for review by the IPSASB. The definition of "carrying amount" was developed by the PSC and staff do not propose changing it.
IPSAS 16.13	10	ASB & SAICA	Investment property: The word "held" was deleted in paragraph 9 of the equivalent IAS but this amendment has not been incorporated in paragraph 13 of this IPSAS. We recommend that this amendment should also be incorporated in paragraph 13 of this IPSAS	This change to IAS 40 was effected after the Improvements Project. No change proposed.
IPSAS 16.21	10	ASB & SAICA	The first sentence of paragraph 21 in this IPSAS was deleted during the IAS improvements project in the equivalent IAS. This amendment should be incorporated in this IPSAS, and we therefore recommend that paragraph 21 in this IPSAS be deleted.	This paragraph was amended by the PSC during the development of the superseded IPSAS 14. No change.
IPSAS 16.22	10	ASB & SAICA	The first sentence of paragraph 22 in this IPSAS was deleted during the IAS improvements project in the equivalent IAS. This amendment should be incorporated in this IPSAS, and we therefore recommend that paragraph 22 in this IPSAS be deleted.	This paragraph was amended by the PSC during the development of the superseded IPSAS 16. No change.
IPSAS 16.58	10	ASB & SAICA	The phrase " <i>the</i> knowledge and estimates of knowledgeable" has been included in paragraph 49 of the equivalent IAS, but this amendment has not been incorporated in the paragraph 58 of this IPSAS. The amendment should also be incorporated in paragraph 58 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 16.65	10	ASB & SAICA	The phrase “that is, at cost less any accumulated depreciation and any accumulated impairment losses” has been deleted in paragraph 56 of the equivalent IAS. This amendment should also be incorporated in the paragraph 65 of this IPSAS.	This change to IAS 40 was effected after the Improvements Project. No change proposed.
IPSAS 16.71	10	ASB & SAICA	The word “deemed” has been incorporated in paragraph 60 of the equivalent IAS but this amendment has not been incorporated in the paragraph 71 of this IPSAS. We recommend that this amendment should also be incorporated in paragraph 91 of this IPSAS	This change to IAS 40 was effected after the Improvements Project. No change proposed.
IPSAS 16.73(b)(ii)	11	South Africa - IPFA	<p>This paragraph states the following: 'any remaining part of the increase is credited directly to equity 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 surplus or deficit.'</p> <p>In both instances, the word equity should be replaced with the term 'net assets/equity'.</p>	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 16.90(d)(iii)	10	ASB & SAICA	A reference to the relevant national and international standard on classification of assets as held for sale may be appropriate here.	IAS 40 does not reference IFRS 5. No change proposed.
IPSAS 16.97	10	ASB & SAICA	An additional transitional provision has been incorporated in paragraph 80 of the equivalent IAS, which should also be incorporated in paragraph 97 of this IPSAS.	All the transitional provisions in IAS 16.80 are reflected in IPSAS 16.97.

IPSAS 17.1	10	ASB & SAICA	The word “the” has been incorporated in paragraph 1 of the equivalent IAS (<i>the</i> users of financial statements” and this amendment should therefore also be incorporated in paragraph 1 of this IPSAS.	Staff cannot identify this amendment.
IPSAS 17.5(b)	11	South Africa - IPFA	This paragraph currently states: 'mineral rights, oil, natural gas and similar non regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves and similar non-regenerative resources)' Reference has been made to 'the relevant international or national accounting standard' for this scope exclusion, while similar scope exclusions in IPSAS 13 paragraph 2(a) and IPSAS 16 paragraph 5 (b) do not contain this reference. While there is currently no international guidance, national guidance is available and should be used in these instances. We suggest including these references for paragraphs where this has been omitted.	This suggestion is beyond the scope of the improvements project, and should be addressed directly by the IPSASB.
IPSAS 17.6	10	ASB & SAICA	The word “leased” has been incorporated in paragraph 4 of the equivalent (and item of <i>leased</i> property, plant and equipment) and this amendment should therefore also be incorporated in paragraph 6 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.13	10	ASB & SAICA	The definition for “cost” in this IPSAS should be amended in line with the definition in IAS 16. We further recommend that the wording “for the purpose of this Standard” in the definition of carrying amount be deleted.	Staff agree re the definition of "cost" and will process the amendment for review by the IPSASB. The definition of "carrying amount" was developed by the PSC and staff do not propose changing it.

IPSAS 17.13	11	South Africa - IPFA	The definition of 'carrying amount' currently states: 'Carrying amount (<u>for the purposes of this Standard</u>)....' A standard line is included at the start of the definitions section that states: 'The following terms are used in this Standard with the meanings specified:' It is therefore unnecessary to include the wording in brackets in the definition of 'carrying amount'.	The definition of "carrying amount" was developed by the PSC and staff do not propose changing it.
IPSAS 17.15	10	ASB & SAICA	During the IAS improvements project, the equivalent paragraph 15 in IAS 16 was deleted. This amendment should be incorporated in this IPSAS, and we therefore recommend that paragraph 15 in this IPSAS be deleted.	The IPSASB decided to retain this paragraph when it developed ED 26. Staff do not propose changes.
IPSAS 17.16	10	ASB & SAICA	The equivalent paragraph 16 in IAS 16 was deleted during the IAS improvements project. This amendment should also be incorporated in this IPSAS, and we therefore recommend that paragraph 16 in this IPSAS be deleted.	The IPSASB decided to retain this paragraph when it developed ED 26. Staff do not propose changes.
IPSAS 17.28	10	ASB & SAICA	The word "nil" has been amended to "nil" in the second sentence of paragraph 28, and this amendment should therefore also be included in the third sentence of this paragraph.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.31	10	ASB & SAICA	The word "the" has been deleted in paragraph 19 of the equivalent IAS (<i>the</i> costs of an item of property, plant and equipment) and "customers" has been amended to "customer". These amendments should also be incorporated in paragraph 31 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.35	10	ASB & SAICA	The phrase "for the period" has been deleted in paragraph 21 of the equivalent IAS (surplus of deficit <i>for the period</i> , and included) and should therefore also be incorporated in paragraph 35 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 17.36	10	ASB & SAICA	The word “an assets” in paragraph 36 of this IPSAS should be amended to “an asset” as in paragraph 22 of the equivalent IAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.36	11	South Africa - IPFA	Second sentence states: ‘If an entity makes similar assets for sale in the normal course of <u>business</u>’. In line with terminology used elsewhere in the IPSAS, consider replacing with the word ‘operations’.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.42	10	ASB & SAICA	The word “either” has been incorporated in paragraph 29 of the equivalent IAS (<i>either</i> the cost model in) and this amendment should therefore also be incorporated in paragraph 42 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.45	10	ASB & SAICA	The phrase “items of property” in paragraph 45 of this IPSAS should be amended to “items of property, plant and equipment” as in the former IPSAS. The phrase “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” in paragraph 45 of this IPSAS should be amended to “that is normally undertaken by professionally qualified valuers” as in paragraph 32 of the equivalent IAS.	The IPSASB amended this paragraph when it developed ED 26. Staff do not propose any amendments.
IPSAS 17.50(a)	10	ASB & SAICA	The phrase “means of an index” has been amended to “means of applying an index” and the word “or” has been deleted in paragraph 35(a) of the equivalent IAS during the IAS improvements project. These amendments should also be incorporated in paragraph 50(a) of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 17.50	10	ASB & SAICA	The phrase “dealt with in accordance” has also been amended to “accounted for in accordance with” in paragraph 35 of the equivalent IAS during the IAS improvements project. This amendment should also be incorporated in paragraph 50 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.57	10	ASB & SAICA	The phrase “realised is the” has been deleted in paragraph 41 of the equivalent IAS. This amendment should therefore also be incorporated in paragraph 57 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.57	11	South Africa - IPFA	Paragraph currently states: ‘Some or all of the revaluation surplus included in the net assets ... ’ This terminology should be ‘net assets/equity’, so as to be consistent with IPSAS 1.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.68	10	ASB & SAICA	The last two sentences in paragraph 52 of the equivalent IAS have been deleted and this amendment should therefore also be incorporated in paragraph 68 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.71	10	ASB & SAICA	The wording in paragraph 55 of the equivalent IAS should be incorporated in paragraph 71 of this IPSAS. A reference to the relevant national and international standard on classification of assets as held for sale may be appropriate in paragraph 71 of this IPSAS.	
IPSAS 17.72	10	ASB & SAICA	The phrase “is consumed by the entity principally through the use of the asset” has been amended to “are consumed by an entity principally through its use” in paragraph 56(c) of the equivalent IAS. This amendment should also be incorporated in paragraph 72(c) of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 17.78	10	ASB & SAICA	In paragraph 62 of the equivalent IAS, the phrase “of the asset” has been amended to “if the asset’s residual value does not change” and the phrase “of the asset” (fourth sentence) has been deleted. These amendments should also be incorporated in paragraph 78 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.79	10	ASB & SAICA	“The Standard” has been amended to “that Standard” in paragraph 63 of the equivalent IAS. The amendment should also be incorporated in paragraph 79 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.82	10	ASB & SAICA	The word “eliminated” has been deleted in paragraph 67 of the equivalent IAS. This amendment should also be made to paragraph 82 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 17.88	10	ASB & SAICA	A reference to the relevant national and international standard on classification of assets as held for sale may be appropriate in paragraph 88(e)(ii) of this IPSAS. The reference to <i>business combinations</i> in IPSAS 17.88(e)(iii) should be amended to <i>entity combinations</i> as in the other amended IPSASs (for example see IPSAS 16).	This change to IAS 16 was effected after the Improvements Project. No change proposed.
IPSAS 17.88(e)(iii)	11	South Africa - IPFA	This paragraph states: ‘Acquisitions through <u>business</u> combinations’. Consider replacing with the word ‘entity’ combinations so as to be consistent with terminology used elsewhere in the standards.	Staff agree and will process the amendment for review by the IPSASB.

IPSAS 6—CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 27 (Revised 2003), “Consolidated and Separate Financial Statements” published by the International Accounting Standards Board (IASB). Extracts from IAS 27 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of International Accounting Standards Committee Foundation (IASCF).

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~~International Public Sector Accounting Standard IPSAS 6~~

~~(revised 200X)~~

~~Consolidated and Separate Financial Statements~~

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 6—CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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International Public Sector Accounting Standard 6, “Consolidated and Separated Financial Statements” (IPSAS 6) is set out in paragraphs 1-71 and the Appendix. All the paragraphs have equal authority. IPSAS 6 should be read in the context of the Basis for Conclusion—~~(if any)~~, and the “Preface to 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.

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 6, “Consolidated and Separate Financial Statements”, replaces IPSAS 1, “Consolidated Financial Statements and Accounting for Controlled Entities” (issued May 2000), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 1

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 6 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 6, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 27, “Consolidated Financial Statements and Accounting for Controlled Entities” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 27 for a public sector specific reason; such variances are retained in this IPSAS 6 and are noted in the Comparison with IAS 27. Any changes to IAS 27 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 1.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 6 are described below.

Scope

IN5. ~~to clarify~~The Standard clarifies in paragraph 3 that ~~the Standard~~it applies to accounting for controlled entities, jointly controlled entities and associates in the separate financial statements of a controlling entity, a venturer or an investor.

Definitions

•IN6. in paragraph 7The Standard:

- ~~to define~~Defines two new terms: “cost method” and “separate financial statements”.
- ~~to remove the following~~No longer includes the unnecessary definitions: “accounting policies”, “accrual basis”, “assets”, “associates”, “cash”, “contributions from owners”, “distributions to owners”, “equity method”,

“expenses”, “government business enterprises”, “investor in a joint venture”, “joint control”, “joint venture”, “liabilities”, “net assets/equity”, “reporting date”, “revenue” and “significant influence”.

- ~~to remove the term~~No longer includes the definition “net surplus/deficit”, which no longer exists. This definition has also been eliminated from IPSAS 1, “Presentation of Financial Statements” and IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”.

~~IN7. to include~~IN7. includes in paragraphs 8-11 further illustrations of the term “separate financial statements”. Previously, IPSAS 6 did not contain these illustrations.

Exemptions from Preparing Consolidated Financial Statements

~~IN8. to The Standard clarify~~IN8. clarifies and tightens in paragraph 16 the circumstances in which a controlling entity is exempted from preparing consolidated financial statements. A controlling entity need not present consolidated financial statements if and only if:

- the controlling entity is itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity’s consolidated financial statements; or the controlling entity is a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not preparing consolidated financial statements;
- the controlling entity’s debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- the controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
- the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

Previously, IPSAS 3 specified that a controlling entity that is a wholly owned controlled entity, or is a virtually wholly owned, need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity’s consolidated financial statements; or, in the case of one that is virtually wholly owned, the controlling entity obtains the approval of the owners of the minority interest.

Exemptions from Consolidation

IN9. ~~to clarify~~ The Standard clarifies in paragraph 21 that a controlled entity shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer. ~~The proposed IPSAS 6~~ The Standard further specifies that when a controlled entity previously excluded from consolidation is not disposed of within twelve months, it must be consolidated as from the acquisition date unless narrowly specified circumstances apply.

The words “in the near future” used in previous IPSAS 6 were replaced with the words “within twelve months”. In addition, there was no similar requirement to (b) in previous IPSAS 6 for exclusion from consolidation.

IN10. ~~to clarify~~ The Standard clarifies in paragraph 26 that the requirement to consolidate investments in controlled entities applies to venture capital organization, mutual funds, unit trusts and similar entities. Previously, IPSAS 6 did not contain this clarification.

IN11. ~~to remove~~ The Standard no longer provides the previous exemption from consolidating for an entity which operates under external long-term severe restrictions which prevents the controlling entity from benefiting from its activities (see previous paragraphs 22(b) and 25).

Consolidation Procedures

IN12. ~~to~~ The Standard requires an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to govern the financial and operating policies of another entity (see paragraphs 33, 34). Previously, IPSAS 6 did not contain these requirements.

IN13. ~~to~~ The Standard ~~clarify~~ clarifies in paragraph 49 that an entity shall use uniform accounting policies for reporting like transactions and other events in similar circumstances. Previously, IPSAS 6 provided an exception to this requirement when it was “not practicable to use uniform accounting policies”.

IN14. ~~to~~ The Standard requires in paragraph 54 that minority interests shall be presented in the consolidated statement of financial position within net assets/equity, separately from the controlling entity’s net assets/equity. Previously, though IPSAS 6 precluded presentation of minority interests within liabilities, it did not require presentation within net assets/equity.

Separate Financial Statements

~~•to require in paragraph 58 investments in controlled entities, jointly controlled entities and associates in separate financial statements to be accounted for at cost or as financial instruments. The equity method contained in previous IPSAS 6 has been removed.~~

IN15. ~~to~~ The Standard requires in paragraph 60 that controlled entities, jointly controlled entities and associates that are accounted for as financial instruments in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements. Previously, IPSAS 6 did not contain this requirement.

Disclosure

IN16. ~~to~~ The Standard requires additional disclosures in respect of separate financial statements (see paragraphs 63 and 64)

Amendments to Other IPSASs

IN17. ~~to~~ The Standard includes 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.

Implementation Guidance

IN18. ~~to~~ The Standard includes ~~an~~ Implementation Guidance, which illustrates how to consider the impact of potential voting rights on an entity's power to govern the financial and operating policies of another entity when implementing IPSAS 6, IPSAS 7, "Investments in Associates" and IPSAS 8, "Interests in Joint Ventures".

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 6—CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity.**
2. This Standard does not deal with methods of accounting for entity combinations and their effects on consolidation, including goodwill arising on an entity combination (guidance on accounting for entity combinations can be found in the relevant international or national accounting standard dealing with business combinations).
3. **This Standard shall also be applied in accounting for controlled entities, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements.**
4. **This Standard applies to all public sector entities other than Government Business Enterprises.**
5. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements”.
6. This Standard establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities, jointly controlled entities and associates in the separate financial statements of the controlling entity, the venturer and the investor. Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE has one or more controlled entities, jointly controlled entities and associates that are GBEs. In these circumstances, this Standard shall be applied in consolidating GBEs into the financial statements of the economic entity, and in accounting for investments in GBEs in the controlling entity’s, the venturer’s and the investor’s separate financial statements.

Definitions

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

Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity, including an unincorporated entity such as a partnership, that is under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

The **cost method** is a method of accounting for an investment whereby the investment is recognized at cost. The investor recognizes revenue from the investment only to the extent that the investor is entitled to receive distributions from accumulated surpluses of the investee arising after the date of acquisition. Entitlements due or received in excess of such surpluses are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Minority interest is that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly through controlled entities, by the controlling entity.

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

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.

Consolidated Financial Statements and Separate Financial Statements

8. A controlling entity or its controlled entity may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with IPSAS 7, "Investments in Associates" and IPSAS 8, "Interests in Joint Ventures".
9. For an entity described in paragraph 8, separate financial statements are those prepared and presented in addition to the financial statements referred to in

paragraph 8. Separate financial statements need not be appended to, or accompany, those statements.

10. The financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a jointly controlled entity are not separate financial statements.
11. A controlling entity that is exempted in accordance with paragraph 16 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

Economic Entity

12. The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.
13. Other terms sometimes used to refer to an economic entity include "administrative entity", "financial entity", "consolidated entity" and "group".
14. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Presentation of Consolidated Financial Statements

15. **A controlling entity, other than a controlling entity described in paragraph 16, shall present consolidated financial statements in which it consolidates its controlled entities in accordance with this Standard.**
16. **A controlling entity need not present consolidated financial statements if and only if:**
 - (a) **the controlling entity is:**
 - **itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or**
 - **a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;**
 - (b) **the controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**

- (c) **the controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and**
 - (d) **the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.**
17. In the public sector many controlling entities that are either wholly owned or partially owned, represent key sectors or activities of a government and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In this situation, the information needs of certain users may not be served by the consolidated financial statements at a whole-of-government level alone. In many jurisdictions, governments have recognized this and have legislated the financial reporting requirements of such entities.
18. In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the ultimate controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements in each jurisdiction may specify which entities are required to (or exempted from the requirement to) prepare consolidated financial statements. Where there is no specific reporting requirement for an intermediate controlling entity to prepare consolidated financial statements for which users are likely to exist, intermediate controlling entities are to prepare and publish consolidated financial statements.
19. A controlling entity that elects in accordance with paragraph 16 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 58-64.

Scope of Consolidated Financial Statements

20. **Consolidated financial statements shall include all controlled entities of the controlling entity, except those referred to in paragraph 21.**
21. **A controlled entity shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer.**
22. Such controlled entities shall be classified and accounted for as financial instruments. The relevant international or national accounting standard

dealing with the recognition and measurement of financial instruments provides guidance on classification and accounting for financial instruments.

23. An example of temporary control is where a controlled entity is acquired with a firm plan to dispose of it within twelve months. This may occur where an economic entity is acquired and an entity within it is to be disposed of because its activities are dissimilar to those of the acquirer. Temporary control also occurs where the controlling entity intends to cede control over a controlled entity to another entity — for example a national government may transfer its interest in a controlled entity to a local government. For this exemption to apply, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.
24. When a controlled entity previously excluded from consolidation in accordance with paragraph 21 is not disposed of within twelve months, it shall be consolidated as from the acquisition date (guidance on the acquisition date can be found in the relevant international or national accounting standard dealing with business combinations). Financial statements for the periods since acquisition shall be restated.
25. Exceptionally, an entity may have found a buyer for a controlled entity excluded from consolidation in accordance with paragraph 21, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The entity is not required to consolidate such a controlled entity if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.
26. A controlled entity is not excluded from consolidation simply because the investor is a venture capital organization, mutual fund, unit trust or similar entity.
27. A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, the disclosures required by IPSAS 18, “Segment Reporting” help to explain the significance of different activities within the economic entity.

Establishing Control of Another Entity for Financial Reporting Purposes

28. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the

particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).

29. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a GBE may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

Control for Financial Reporting Purposes

30. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.
31. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between the controlled entity and its controlling entity.
32. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to operate autonomously and does not rely on the government for funding but has raised capital through significant borrowings that are guaranteed by the government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body and would be reluctant to do so because of sensitivity in the

electorate regarding the previous government's involvement in the operation of the rail network. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient even though the controlling entity may choose not to exercise that power.

33. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
34. In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert.
35. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, the Office of the Government Statistician usually has statutory powers to operate independently of the government. That is, the Office of the Government Statistician may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.
36. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a "controlling entity" and "controlled entity" relationships which do not extend beyond, for instance, that of a liquidator

and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

Regulatory and Purchase Power

37. Governments and their agencies have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of public sector entities include only those resources that they control and can benefit from, the meaning of control for the purposes of this Standard does not extend to:
 - (a) the power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or
 - (b) entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity which is dependent on it for funding (such as a charity) or a profit-orientated entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies.

Determining Whether Control Exists for Financial Reporting Purposes

38. Public sector entities may create other entities to achieve some of their objectives. In some cases it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs 39 and 40 provide guidance to help determine whether or not control exists for financial reporting purposes.
39. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power conditions

- (a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.
- (b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body and control of the other entity is by that board or by that body.
- (c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.
- (d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the other entity is by that board or by that body.

Benefit conditions

- (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
- (b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

40. When one or more of the circumstances listed in paragraph 39 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

- (a) The entity has the ability to veto operating and capital budgets of the other entity.
- (b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.
- (c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.
- (d) The mandate of the other entity is established and limited by legislation.
- (e) The entity holds a “golden share”¹ (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

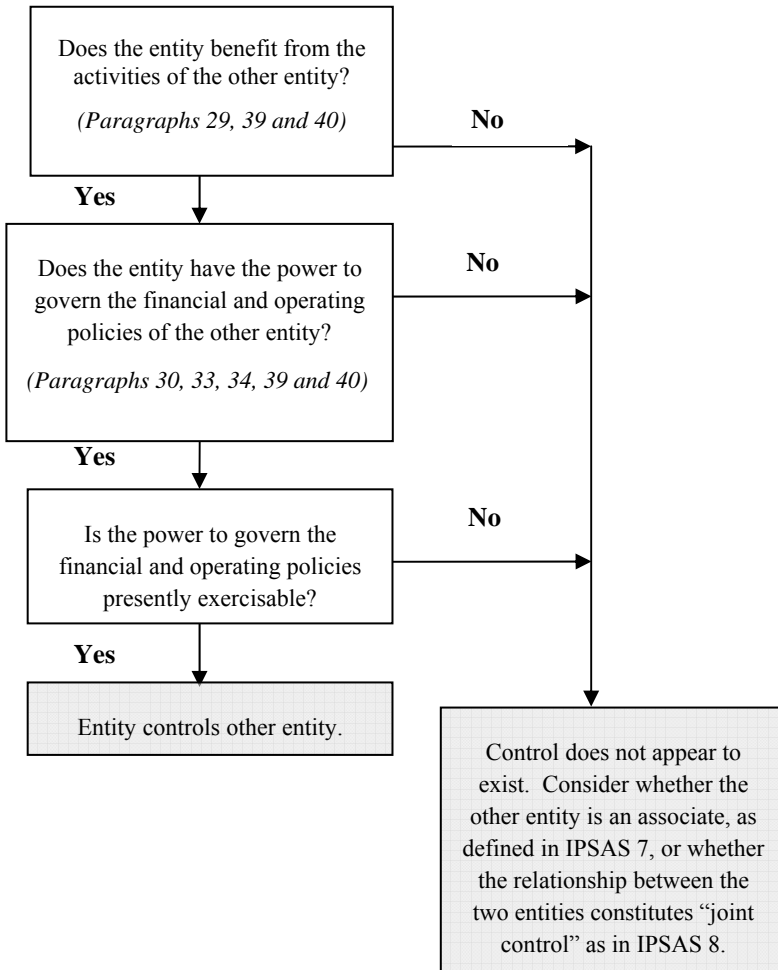
¹ “Golden share” refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder’s ownership interest or representation on the governing body.

Benefit indicators

- (a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.
- (b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.
- (c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.
- (d) The entity is exposed to the residual liabilities of the other entity.⁴¹

The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 28 to 40.

Establishing Control of another Entity for Financial Reporting Purposes



42. A controlling entity loses control when it loses the power to govern the financial and operating policies of a controlled entity so as to benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a controlled entity becomes subject to the control of another government, a court, administrator or regulator. It could also occur as a result of a contractual agreement or, for example, a foreign government may sequester the operating assets of a foreign controlled entity so that the controlling entity loses the power to govern the operating policies of the controlled entity. In this case, control is unlikely to exist.

Consolidation Procedures

43. In preparing consolidated financial statements, an entity combines the financial statements of the controlling entity and its controlled entities line by line by adding together like items of assets, liabilities, net assets/equity, revenue and expenses. In order that the consolidated financial statements present financial information about the economic entity as that of a single entity, the following steps are then taken:
- (a) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity are eliminated (the relevant international or national accounting standard dealing with business combinations provides guidance on the treatment of any resultant goodwill);
 - (b) minority interests in the surplus or deficit of consolidated controlled entities for the reporting period are identified; and
 - (c) minority interests in the net assets/equity of consolidated controlled entities are identified separately from the controlling entity's net assets/equity in them. Minority interests in the net assets/equity consist of:
 - (i) the amount of those minority interests at the date of the original combination (the relevant international or national accounting standard dealing with business combinations provides guidance on calculating this amount); and
 - (ii) the minority's share of changes in net assets/equity since the date of combination.
44. When potential voting rights exist, the proportions of surplus or deficit and changes in net assets/equity allocated to the controlling entity and minority interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.
45. **Balances, transactions, revenues and expenses between entities within the economic entity shall be eliminated in full.**

46. Balances and transactions between entities within the economic entity, including revenues from sales and transfers, revenues recognized consequent to an appropriation or other budgetary authority, expenses and dividends or similar distributions, are eliminated in full. Surpluses and deficits resulting from transactions within the economic entity that are recognized in assets, such as inventory and fixed assets, are eliminated in full. Deficits within the economic entity may indicate an impairment that requires recognition in the consolidated financial statements. Guidance on accounting for temporary differences that arise from the elimination of surpluses and deficits resulting from transactions within the economic entity, can be found in the relevant international or national accounting standard dealing with income taxes.
47. **The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date. When the reporting dates of the controlling entity and a controlled entity are different, the controlled entity prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the controlling entity unless it is impracticable to do so.**
48. **When in accordance with paragraph 47, the financial statements of a controlled entity used in the preparation of consolidated financial statements are prepared as of a reporting date different from that of the controlling entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's financial statements. In any case, the difference between the reporting date of the controlled entity and that of the controlling entity shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.**
49. **Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.**
50. If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.
51. The revenue and expenses of a controlled entity are included in the consolidated financial statements from the acquisition date (the relevant international or national accounting standard dealing with business combinations provides guidance on the meaning of the acquisition date). The revenue and expenses of a controlled entity are included in the consolidated financial statements until the date on which the controlling entity ceases to control the controlled entity. The difference between the proceeds from the

disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognized in net assets/equity in accordance with IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”, is recognized in the consolidated statement of financial performance as the gain or loss on the disposal of the controlled entity.

52. From the date an entity ceases to be a controlled entity, provided that it does not become an associate as defined in IPSAS 7 or a jointly controlled entity as defined in IPSAS 8, it shall be accounted for as a financial instrument. The relevant international or national accounting standard dealing with the recognition and measurement of financial instruments provides guidance on accounting for financial instruments.
53. The carrying amount of the investment at the date that the entity ceases to be a controlled entity shall be regarded as the cost on initial measurement of a financial instrument.
54. **Minority interests shall be presented in the consolidated statement of financial position within net assets/equity, separately from the controlling entity’s net assets/equity. Minority interests in the surplus or deficit of the economic entity shall also be separately disclosed.**
55. The surplus or deficit is attributed to the controlling entity and minority interests. Because both are net assets/equity, the amount attributed to minority interests is not revenue or expense.
56. Losses applicable to the minority in a consolidated controlled entity may exceed the minority interest in the controlled entity’s net assets/equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the controlled entity subsequently reports surpluses, such surpluses are allocated to the majority interest until the minority’s share of losses previously absorbed by the majority has been recovered.
57. If a controlled entity has outstanding cumulative preference shares that are held by minority interests and classified as net assets/equity, the controlling entity computes its share of surpluses or deficits after adjusting for the dividends on such shares, whether or not dividends have been declared.

Accounting for Controlled Entities, Jointly Controlled Entities and Associates in Separate Financial Statements

58. **When separate financial statements are prepared, investments in controlled entities, jointly controlled entities and associates shall be accounted for ~~either~~:**

(a) using the equity method as described in IPSAS 7;

(ab) at cost, or

(bc) as financial instruments.

The same accounting shall be applied for each category of investments.

59. This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 58 and 60-64 apply when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 15, unless the exemption provided in paragraph 16 is applicable.
60. **Controlled entities, jointly controlled entities and associates that are accounted for as financial instruments in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.**
61. Guidance on accounting for financial instruments can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

[deleted]Disclosure

62. **The following disclosures shall be made in consolidated financial statements:**
- (a) a list of significant controlled entities;**
 - (b) the fact that a controlled entity is not consolidated in accordance with paragraph 21**
 - (c) summarized financial information of controlled entities, either individually or in groups, that are not consolidated, including the amounts of total assets, total liabilities, revenues and surplus or deficit;**
 - (d) the name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists;**
 - (e) the reasons why the ownership interest of more than 50% of the voting or potential voting power of an investee does not constitute control;**
 - (f) the reporting date of the financial statements of a controlled entity when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period**

that is different from that of the controlling entity, and the reason for using a different reporting date or period; and

- (g) the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends, or similar distributions, or to repay loans or advances.

63. When separate financial statements are prepared for a controlling entity that, in accordance with paragraph 16, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:

- (a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with International Public Sector Accounting Standards have been produced for public use and the jurisdiction in which the entity operates (when it is different from that of the controlling entity); and the address where those consolidated financial statements are obtainable;
- (b) a list of significant controlled entities, jointly controlled entities and associates, including the name, the jurisdiction in which the entity operates (when it is different from that of the controlling entity), proportion of ownership interest and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and
- (c) a description of the method used to account for the entities listed under (b).

64. When a controlling entity (other than a controlling entity covered by paragraph 63), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:

- (a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law, legislation or other authority;
- (b) a list of significant controlled entities, jointly controlled entities and associates, including the name, the jurisdiction in which the entity operates (when it is different from that of the controlling entity), proportion of ownership interest and, where that interest is in the form of shares, the proportion of voting power held (only

where this is different from the proportionate ownership interest);
and

- (c) a description of the method used to account for the entities listed under (b);

and shall identify the financial statements prepared in accordance with paragraph 15 of this Standard, IPSAS 7 and IPSAS 8 to which they relate.

Transitional Provisions

65. Entities are not required to comply with the requirement in paragraph 45 concerning the elimination of balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards.
66. Controlling entities that adopt accrual accounting for the first time in accordance with International Public Sector Accounting Standards may have many controlled entities with significant number of transactions between these entities. Accordingly, it may be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 65 provides relief from the requirement to eliminate balances and transactions between entities within the economic entity in full.
67. Where entities apply the transitional provision in paragraph 65, they shall disclose the fact that not all balances and transactions occurring between entities within the economic entity have been eliminated.
68. Transitional provisions in IPSAS 6 (2000) provide entities with a period of up to three years to fully eliminate balances and transactions between entities within the economic entity from the date of its first application. Entities that have previously applied IPSAS 6 (2000) may continue to take advantage of this three-year transitional period from the date of first application of IPSAS 6 (2000).

Effective Date

69. An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after **January 1, 2008~~MM-DD, YYYY~~**. Earlier application is encouraged. If an entity applies this Standard for a period beginning before **January 1, 2008~~MM-DD, YYYY~~**, it shall disclose that fact.

70. 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 6 (2000)

71. This Standard supersedes IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities" issued in 2000.

Appendix

Amendments to Other IPSASs

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 International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 6, “Consolidated Financial Statements and Accounting for Controlled Entities” are amended to IPSAS 6, “Consolidated and Separate Financial Statements”.
- A2. The following is added to paragraph 4 (f) of IPSAS 15, “Financial Instruments: Disclosure and Presentation”:

However, entities shall apply this Standard to an interest in a controlling entity, associate or joint venture that according to IPSAS 6, IPSAS 7 or IPSAS 8 is accounted for as a financial instrument. In these cases, entities shall apply the disclosure requirements in IPSAS 6, IPSAS 7 and IPSAS 8 in addition to those in this Standard.

Implementation Guidance - Consideration of Potential Voting Rights

Guidance on implementing IPSAS 6, “Consolidated and Separate Financial Statements”, IPSAS 7, “Investments in Associates” and IPSAS 8, “Interests in Joint Ventures”.

This guidance accompanies IPSAS 6, IPSAS 7 and IPSAS 8, but is not part of them.

Introduction

- IG1 Most public sector entities do not issue financial instruments with potential voting rights. However, they may be issued by GBEs. Therefore, a government or other public sector entity may hold potential voting rights of GBEs.
- IG2. Paragraphs 33, 34 and 44 of IPSAS 6, “Consolidated and Separate Financial Statements” and paragraphs 14 and 15 of IPSAS 7, “Investments in Associates” require an entity to consider the existence and effect of all potential voting rights that are currently exercisable or convertible. They also require all facts and circumstances that affect potential voting rights to be examined, except the intention of management and the financial ability to exercise or convert potential voting rights. Because the definition of joint control in paragraph 6 of IPSAS 8, “Interests in Joint Ventures” depends upon the definition of control, and because that Standard is linked to IPSAS 7 for application of the equity method, this guidance is also relevant to IPSAS 8.

Guidance

- IG3. Paragraph 7 of IPSAS 6 defines control as the power to govern the financial and operating policies of an entity so as to benefit from its activities. Paragraph 7 of IPSAS 7 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but not to control those policies. Paragraph 6 of IPSAS 8 defines joint control as the agreed sharing of control over an activity by a binding agreement. In these contexts, power refers to the ability to do or effect something. Consequently, an entity has control, joint control or significant influence when it currently has the ability to exercise that power, regardless of whether control, joint control or significant influence is actively demonstrated or is passive in nature. Potential voting rights held by an entity that are currently exercisable or convertible provide this ability. The ability to exercise power does not exist when potential voting rights lack economic substance (eg the exercise price is set in a manner that precludes exercise or conversion in any feasible scenario). Consequently, potential voting rights are considered when, in substance, they provide the ability to exercise power.

- IG4. Control and significant influence also arise in the circumstances described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7 respectively, which include consideration of the relative ownership of voting rights. IPSAS 8 depends on IPSAS 6 and IPSAS 7 and references to IPSAS 6 and IPSAS 7 from this point onwards should be read as being relevant to IPSAS 8. Nevertheless it should be borne in mind that joint control involves sharing of control by a binding agreement and this aspect is likely to be the critical determinant. Potential voting rights such as share call options and convertible debt are capable of changing an entity's voting power over another entity—if the potential voting rights are exercised or converted, then the relative ownership of the ordinary shares carrying voting rights changes. Consequently, the existence of control (the definition of which permits only one entity to have control of another entity) and significant influence are determined only after assessing all the factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7 respectively, and considering the existence and effect of potential voting rights. In addition, the entity examines all facts and circumstances that affect potential voting rights except the intention of management and the financial ability to exercise or convert. The intention of management does not affect the existence of power and the financial ability of an entity to exercise or convert is difficult to assess.
- IG5. An entity may initially conclude that it controls or significantly influences another entity after considering the potential voting rights that it can currently exercise or convert. However, the entity may not control or significantly influence the other entity when potential voting rights held by other parties are also currently exercisable or convertible. Consequently, an entity considers all potential voting rights held by it and by other parties that are currently exercisable or convertible when determining whether it controls or significantly influences another entity. For example, all share call options are considered, whether held by the entity or another party. Furthermore, the definition of control in paragraph 7 of IPSAS 6 permits only one entity to have control of another entity. Therefore, when two or more entities each hold significant voting rights, both actual and potential, the factors in paragraphs 39 and 40 of IPSAS 6 are reassessed to determine which entity has control.
- IG6. The proportion allocated to the controlling entity and minority interests in preparing consolidated financial statements in accordance with IPSAS 6, and the proportion allocated to an investor that accounts for its investment using the equity method in accordance with IPSAS 7, are determined solely on the basis of present ownership interests. The proportion allocated is determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, give access at present to the economic benefits associated with an ownership interest.

- IG7. In some circumstances an entity has, in substance, a present ownership as a result of a transaction that gives it access to the economic benefits or service potential associated with an ownership interest. In such circumstances, the proportion allocated is determined taking into account the eventual exercise of those potential voting rights and other derivatives that give the entity access to the economic benefits at present.
- IG8. The relevant international or national accounting standard dealing with the recognition and measurement of financial instruments provides guidance on accounting for financial instruments. However, it does not apply to interests in controlled entities, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with IPSAS 6, IPSAS 7 and IPSAS 8 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits or service potential associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments. In all other cases, guidance on accounting for instruments containing potential voting rights can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

Illustrative Examples

- IG9. The ten examples below each illustrate one aspect of a potential voting right. In applying IPSAS 6, IPSAS 7 or IPSAS 8, an entity considers all aspects. The existence of control, significant influence and joint control can be determined only after assessing the other factors described in IPSAS 6, IPSAS 7 and IPSAS 8. For the purpose of these examples, however, those other factors are presumed not to affect the determination, even though they may affect it when assessed.

Example 1A: Options are out of the money

Entities A and B own 80 per cent and 20 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity A sells one-half of its interest to Entity D and buys call options from Entity D that are exercisable at any time at a premium to the market price when issued, and if exercised would give Entity A its original 80 per cent ownership interest and voting rights.

Though the options are out of the money, they are currently exercisable and give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in

paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that Entity A controls Entity C.

Example 1B: Right to Purchase at Premium to Fair Value

The municipalities of Dunelm and Eboracum own 80 per cent and 20 per cent respectively of Dunelm-Eboracum General Hospital, a public sector entity established by charter. The hospital is managed by a board of ten trustees, appointed by the municipalities in proportion to their ownership interest of the hospital. The charter permits either municipality to sell part or its entire ownership interest in the hospital to another municipality within the region. Dunelm sells one-half of its interest to the municipality of Formio, however the sale contract gives Dunelm the right to repurchase Formio's interest in the hospital at an amount equal to 115 per cent of the fair value of the ownership interest determined by an independent valuer. This right is exercisable at any time and, if exercised would give Dunelm its original 80 per cent ownership interest and the right to appoint trustees accordingly.

Although the right to reacquire the ownership interest sold to Formio would involve paying a premium over the fair value, the right is currently exercisable and gives Dunelm the power to continue to set the operating and financial policies of the Dunelm-Eboracum General Hospital, because Dunelm could exercise its right to reacquire Formio's interest now. The existence of the potential right to appoint trustees, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that the municipality of Dunelm controls the Dunelm-Eboracum General Hospital.

Example 2A: Possibility of exercise or conversion

Entities A, B and C own 40 per cent, 30 per cent and 30 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity A also owns call options that are exercisable at any time at the fair value of the underlying shares and if exercised would give it an additional 20 per cent of the voting rights in Entity D and reduce Entity B's and Entity C's interests to 20 per cent each. If the options are exercised, Entity A will have control over more than one-half of the voting power. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7, are considered and it is determined that Entity A controls Entity D.

Example 2B: Possibility of exercise of rights

The federal government of Arandis, in agreement with the state governments of Brixia and Mutina, establishes the University of Pola-Iluro. The University of Pola-Iluro is near the cities of Pola, Brixia and Iluro, Mutina, which are located next to each other on the border between the two states. The federal legislation that establishes the University of Pola-Iluro provides that the

federal minister of education has the right to appoint four of the ten governors that manage the university. The state ministers of education of Brixia and Mutina are given the right to appoint three governors each. The legislation also provides that the federal government has ownership of 40 per cent of the university's net assets, with the state governments having 30 per cent each. The federal legislation gives the federal minister of education the right to acquire an additional 20 percent of the ownership in the university's net assets, with the right to appoint an additional two governors. This right is exercisable at any time, at the discretion of the federal minister. It requires the federal government to pay each state government the fair value of the net assets of the university acquired. If the federal government exercises its right, it would own 60 per cent of the net assets of the university, and have the right to appoint six of the ten governors. This would reduce the state governments' ownership to 20 per cent each, with the right to appoint only two governors each.

The existence of the potential right to appoint the majority of the university's governors, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7, are considered and it is determined that the federal government of Arandis controls the University of Pola-Iluro.

Example 3A: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power

Entities A, B and C own 25 per cent, 35 per cent and 40 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities B and C also have share warrants that are exercisable at any time at a fixed price and provide potential voting rights. Entity A has a call option to purchase these share warrants at any time for a nominal amount. If the call option is exercised, Entity A would have the potential to increase its ownership interest, and thereby its voting rights, in Entity D to 51 per cent (and dilute Entity B's interest to 23 per cent and Entity C's interest to 26 per cent).

Although the share warrants are not owned by Entity A, they are considered in assessing control because they are currently exercisable by Entities B and C. Normally, if an action (eg purchase or exercise of another right) is required before an entity has ownership of a potential voting right, the potential voting right is not regarded as held by the entity. However, the share warrants are, in substance, held by Entity A, because the terms of the call option are designed to ensure Entity A's position. The combination of the call option and share warrants gives Entity A the power to set the operating and financial policies of Entity D, because Entity A could currently exercise the option and share warrants. The other factors described in paragraphs 39 and 40 of IPSAS 6 and

paragraphs 12 and 13 of IPSAS 7 are also considered, and it is determined that Entity A, not Entity B or C, controls Entity D.

Example 3B: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power

The cities of Deva, Oxonia and Isca own 25 per cent, 35 per cent and 40 per cent respectively of the Deva-Oxonia-Isca Electricity Generating Authority, a public sector entity established by charter. The charter gives the cities voting rights in the management of the Authority and the right to receive the electricity generated by the Authority. The voting rights and electricity access are in proportion to their ownership in the Authority. The charter gives Oxonia and Isca rights to increase their ownership (and therefore voting rights) in the Authority each by 10 per cent at any time at a commercial price agreed by the three cities. The charter also gives Deva the right to acquire 15 per cent interest of the Authority from Oxonia and 20 per cent from Isca at any time for a nominal consideration. If Deva exercised the right, Deva would increase its ownership interest, and thereby its voting rights, in Deva-Oxonia-Isca Electric Generating Authority to 60 per cent. This would dilute Oxonia's ownership to 20 per cent and Isca's to 20 per cent.

Although the charter gives Oxonia and Isca the right to increase their proportion of ownership, the overarching right of Deva to acquire a majority interest in the Authority for a nominal consideration set out in the charter is, in substance, designed to ensure Deva's position. The right held by Deva gives Deva the capacity to set the operating and financial policies of the Deva-Oxonia-Isca Electricity Generating Authority, because Deva could exercise the right to increase its ownership and therefore voting rights at any time. The other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7 are also considered, and it is determined that Deva, not Oxonia or Isca, controls the Deva-Oxonia-Isca Electricity Generating Authority.

Example 4A: Management intention

Entities A, B and C each own 33⅓ per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities A, B and C each have the right to appoint two directors to the board of Entity D. Entity A also owns call options that are exercisable at a fixed price at any time and if exercised would give it all the voting rights in Entity D. The management of Entity A does not intend to exercise the call options, even if Entities B and C do not vote in the same manner as Entity A. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7, are considered and it is determined that Entity A controls Entity D. The intention of Entity A's management does not influence the assessment.

Example 4B: Management Intention

The cities of Tolosa, Lutetia and Massilia each own 33 1/3 per cent of TLM Water Commission, a public sector entity established by charter to reticulate drinking water to the cities of Tolosa, Lutetia and Massilia and a number of outlying towns and villages. The charter gives each city an equal vote in the governance of the Commission, and the right to appoint two Commissioners each. The Commissioners manage the Commission on behalf of the cities. The charter also gives the city of Tolosa the right to acquire the ownership of Lutetia and Massilia at a fixed price, exercisable at any time by the Mayor of Tolosa. If exercised Tolosa would have sole governance of the Commission with the right to appoint all the Commissioners. The Mayor of Tolosa does not intend to exercise the right to acquire full ownership of Commission, even if the Commissioners appointed by Lutetia and Massilia vote against those appointed by Tolosa. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7, are considered and it is determined that Tolosa controls TLM Water Commission. The intention of the Mayor of Tolosa does not influence the assessment.

Example 5A: Financial ability

Entities A and B own 55 per cent and 45 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity B also holds debt instruments that are convertible into ordinary shares of Entity C. The debt can be converted at a substantial price, in comparison with Entity B's net assets, at any time and if converted would require Entity B to borrow additional funds to make the payment. If the debt were to be converted, Entity B would hold 70 per cent of the voting rights and Entity A's interest would reduce to 30 per cent.

Although the debt instruments are convertible at a substantial price, they are currently convertible and the conversion feature gives Entity B the power to set the operating and financial policies of Entity C. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that Entity B, not Entity A, controls Entity C. The financial ability of Entity B to pay the conversion price does not influence the assessment.

Example 5B: Financial ability

The cities of Melina and Newton own 55 per cent and 45 per cent respectively of the interests that carry voting rights of MN Broadcasting Authority, a public sector entity established by charter to provide broadcasting and television services for the regions. The charter gives the city of Newton the option to buy additional 25 per cent interest of the Authority from the city of Melina at a substantial price, in comparison with

the city of Newton's net assets, at any time. If exercised it would require the city of Newton to borrow additional funding to make the payment. If the option were to be exercised, the city of Newton would hold 70 per cent of the voting rights and the city of Melina's interest would reduce to 30 per cent.

Although the option is exercisable at a substantial price, it is currently exercisable and the exercise feature gives the city of Newton the power to set the operating and financial policies of MN Broadcasting Authority. The existence of potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that the city of Newton, not the city of Melina, controls MN Broadcasting Authority. The financial ability of the city of Newton to pay the exercise price does not influence the assessment.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)² as part of its General Improvements Project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.

BC4. IPSAS 6, issued in May 2000 was based on IAS 27 (Reformatted 1994), "Consolidated Financial Statements and Accounting for Controlled Entities" which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)³, actioned an IPSAS

² The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

³ The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

BC5. The IPSASB reviewed the improved IAS 27 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).

BC6. The IPSASB has departed from the provisions of IAS 27 in that it has decided to retain the equity method as a method of accounting for controlled entities in the separate financial statements of controlling entities. The IPSASB is aware that views on this treatment are evolving and that it is not necessary at this time to remove the equity method as an option.

BC7. IAS 27 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 6 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

Table of Concordance

This table shows how the contents of the superseded of IPSAS 6 and the current version of IPSAS 6 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

<u>Superseded IPSAS 6 paragraphs</u>	<u>Current IPSAS 6 paragraph</u>	<u>Superseded IPSAS 6 paragraphs</u>	<u>Current IPSAS 6 paragraph</u>	<u>Superseded IPSAS 6 paragraphs</u>	<u>Current IPSAS 6 paragraph</u>
<u>1</u>	<u>1</u>	<u>30</u>	<u>32</u>	<u>59</u>	<u>66</u>
<u>2</u>	<u>3</u>	<u>31</u>	<u>35</u>	<u>60</u>	<u>67</u>
<u>3</u>	<u>None</u>	<u>32</u>	<u>36</u>	<u>61</u>	<u>69</u>
<u>4</u>	<u>4</u>	<u>33</u>	<u>37</u>	<u>62</u>	<u>70</u>
<u>5</u>	<u>5</u>	<u>34</u>	<u>38</u>	<u>None</u>	<u>3</u>
<u>6</u>	<u>6</u>	<u>35</u>	<u>39</u>	<u>None</u>	<u>8</u>
<u>7</u>	<u>2</u>	<u>36</u>	<u>40</u>	<u>None</u>	<u>9</u>
<u>8</u>	<u>7</u>	<u>37</u>	<u>41</u>	<u>None</u>	<u>10</u>
<u>9</u>	<u>12</u>	<u>38</u>	<u>None</u>	<u>None</u>	<u>11</u>
<u>10</u>	<u>13</u>	<u>39</u>	<u>43</u>	<u>None</u>	<u>19</u>
<u>11</u>	<u>14</u>	<u>40</u>	<u>None</u>	<u>None</u>	<u>24</u>
<u>12</u>	<u>None</u>	<u>41</u>	<u>45</u>	<u>None</u>	<u>25</u>
<u>13</u>	<u>None</u>	<u>42</u>	<u>46</u>	<u>None</u>	<u>26</u>
<u>14</u>	<u>None</u>	<u>43</u>	<u>47</u>	<u>None</u>	<u>33</u>
<u>15</u>	<u>15</u>	<u>44</u>	<u>48</u>	<u>None</u>	<u>34</u>
<u>16</u>	<u>16</u>	<u>45</u>	<u>49</u>	<u>None</u>	<u>42</u>
<u>17</u>	<u>None</u>	<u>46</u>	<u>50</u>	<u>None</u>	<u>44</u>
<u>18</u>	<u>17</u>	<u>47</u>	<u>51</u>	<u>None</u>	<u>55</u>
<u>19</u>	<u>None</u>	<u>48</u>	<u>52</u>	<u>None</u>	<u>59</u>
<u>20</u>	<u>18</u>	<u>49</u>	<u>53</u>	<u>None</u>	<u>63</u>
<u>21</u>	<u>20</u>	<u>50</u>	<u>54</u>	<u>None</u>	<u>64</u>
<u>22</u>	<u>21</u>	<u>51</u>	<u>56</u>	<u>None</u>	<u>68</u>
<u>23</u>	<u>22</u>	<u>52</u>	<u>57</u>	<u>None</u>	<u>71</u>
<u>24</u>	<u>23</u>	<u>53</u>	<u>58</u>		
<u>25</u>	<u>None</u>	<u>54</u>	<u>60</u>		
<u>26</u>	<u>28</u>	<u>55</u>	<u>61</u>		
<u>27</u>	<u>29</u>	<u>56</u>	<u>None</u>		
<u>28</u>	<u>30</u>	<u>57</u>	<u>62</u>		
<u>29</u>	<u>31</u>	<u>58</u>	<u>65</u>		

Comparison with IAS 27

International Public Sector Accounting Standard IPSAS 6, “Consolidated and Separate Financial Statements” is drawn primarily from International Accounting Standard IAS 27, “Consolidated and Separate Financial Statements” (2003). At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”, to public sector entities, therefore IPSAS 6 does not reflect amendments made to IAS 27 consequent upon the issue of International Financial Reporting Standard IFRS 5. The main differences between IPSAS 6 and IAS 27 are as follows:

- Commentary additional to that in IAS 27 has been included in IPSAS 6 to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS 6 contains specific guidance on whether control exists in a public sector context (paragraphs 28-41).
- IPSAS 6 uses different terminology, in certain instances, from IAS 27. The most significant examples are the use of the terms “statement of financial performance”, “statement of financial position”, “net assets/equity”, “economic entity”, “controlling entity” and “controlled entity” in IPSAS 6. The equivalent terms in IAS 27 are “income statement”, “balance sheet”, “equity”, “group”, “parent” and “subsidiary”.
- IPSAS 6 does not use the term “income”, which in IAS 27 has a broader meaning than the term “revenue”.
- IPSAS 6 requires controlling entities to disclose a list of significant controlled entities in consolidated financial statements (paragraph 62(a)). IAS 27 does not require this disclosure. IPSAS 6 includes a transitional provision that permits entities to not eliminate all balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard (paragraphs 65-68). IAS 27 does not contain transitional provisions.
- IPSAS 6 contains five additional illustrative examples that reflect the public sector context in Implementation Guidance.

IPSAS 7—INVESTMENTS IN ASSOCIATES

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 28 (Revised 2003), “Investments in Associates” published by the International Accounting Standards Board (IASB). Extracts from IAS 28 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of International Accounting Standards Committee Foundation (IASCF).

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International Public Sector Accounting Standard IPSAS 7

(revised 200X)

Accounting for Investments in Associates

~~[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]~~

2

**SUMMARY OF MAIN CHANGES IPSAS 7
INVESTMENT IN ASSOCIATES
INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD 7—INVESTMENTS IN ASSOCIATES**

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Basis for Conclusions

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Comparison with IAS 28	
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International Public Sector Accounting Standard 7, “Investments in Associates” (IPSAS 7) is set out in paragraphs 1-49 and the Appendix. All the paragraphs have equal authority. IPSAS 7 should be read in the context of 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.

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 7, “Investments in Associates”, replaces IPSAS 7, “Accounting for Investments in Associates” (issued May 2000), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 7

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 7 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 7, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 28, “Accounting for Investment in Associates” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 28 for a public sector specific reason; such variances are retained in this IPSAS 7 and are noted in the Comparison with IAS 28. Any changes to IAS 28 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 7.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 7 are described below.

~~The main changes proposed are:~~

Name of Standard

~~—IN5. The name of the Standard has been ~~to~~ changed~~ to “Investments in Associates”.

Scope

~~—IN6. ~~The Standard~~ now excludes~~ in paragraph 1 investments that would otherwise be associates or joint ventures held by venture capital organizations, mutual funds, unit trusts and similar entities that are measured at fair value in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 7

~~ACCOUNTING FOR~~ INVESTMENTS IN ASSOCIATES

~~—IN7. to The Standard provides~~ exemptions from application of the equity method to certain:

- controlling entities, similar to those provided for financial statements in IPSAS 6, “Consolidated and Separate Financial Statements” (in paragraph 19(b)); and
- investors which satisfy the same type of conditions that exempt controlling entities in preparing consolidated financial statements in paragraph 19(c).

Definitions

~~—IN8. to The Standard modify-modifies the definitions of ‘equity method’ and ‘significant influence’ for uniform definitions in IPSASs in paragraph 7.~~

Significant Influence

~~—IN9. to The Standard requires~~ in paragraphs 14-16 ~~for~~ an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee (associate).

Application of the Equity Method

~~—IN10. to The Standard clarify-clarifies in paragraph 19 that investments that are held exclusively with a view to its disposal within twelve months of acquisition and that management is actively seeking a buyer shall be classified as “held for trading” and will be accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.~~

~~—IN11. to The Standard clarify-clarifies in paragraph 24 that when an investor ceases to significantly influence its investment, the cost of the investment shall be accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.~~

~~—IN12. to The Standard requires~~ in paragraph 28 that surpluses and deficits resulting from ‘upstream’ and ‘downstream’ transactions between an investor and an associate to be eliminated to the extent of the investor’s interest in the associate.

~~—IN13. to The Standard allows~~ a maximum of three months between the reporting period of the investor and its associate when applying the equity method (paragraph 31).

~~—IN14. to The Standard removes~~ the ‘impracticable’ notion in paragraph 33, such that an investor has to make appropriate adjustments for

transactions and other events in the associate's financial statements when the accounting policies in both entities are not similar.

~~—IN15.~~ ~~to~~ The Standard requires in paragraphs 35 and 36 ~~to the entity to~~ consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognizing its share of losses of the associate.

Impairment Losses

~~—IN16.~~ ~~To~~ The Standard provides guidance in paragraphs 37-40 on when and how an entity tests for impairment of its associate.

Separate Financial Statements

~~—IN17.~~ ~~to~~ ~~The move~~ the requirements and guidance for separate financial statements have been moved to ~~into~~ IPSAS 6 in paragraphs 41 and 42. Entities will now have to refer to IPSAS 6 for guidance on how to prepare an investor's separate financial statements.

Disclosure

~~—IN18.~~ ~~to~~ The Standard requires in paragraph 43 more detailed disclosures on investments in associates, including:

- the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements) on the ability of associates to transfer funds to the investor;
- the unrecognized share of losses of an associate if any investor has discontinued recognition of its share of losses of an associate; and
- the reasons why:
 - an investment is considered to have significant influence when it holds less than 20 percent of the voting or potential voting power of the investee;
 - an investment is not considered to have significant influence when it holds ~~less~~ more than 20 percent of the voting or potential voting power of the investee; and
 - the reporting date of the financial statements of the associate and investor is different.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD 7—INVESTMENTS IN ASSOCIATES****Scope**

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting by an investor for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure. However, it does not apply to investments in associates held by:**

- (a) **venture capital organizations, or**
- (b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds.**

that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

2. Guidance on recognition and measurement of interests identified in paragraph 1 that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change can be found in the relevant international or national accounting standard dealing with financial instruments.
3. This Standard provides the basis for accounting for ownership interests in associates. That is, the investment in the other entity confers on the investor the risks and rewards incidental to an ownership interest. The Standard applies only to investments in the formal equity structure (or its equivalent) of an investee. A formal equity structure means share capital or an equivalent form of unitized capital, such as units in a property trust, but may also include other equity structures in which the investor's interest can be measured reliably. Where the equity structure is poorly defined it may not be possible to obtain a reliable measure of the ownership interest.
4. Some contributions made by public sector entities may be referred to as an "investment" but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. Whilst such contributions are non-exchange in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity

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could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks nor does it enjoy the rewards which are incidental to an ownership interest.

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**
6. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements”. .

Definitions

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

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor an interest in a joint venture.

Consolidated financial statements are the financial statements of an economic entity presented as those of a single economic entity.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity, including an unincorporated entity such as a partnership, that is subject to the control of another entity (known as the controlling entity).

The **equity method** is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor’s share of net assets/equity of the investee. The surplus or deficit of the investor includes the investor’s share of the surplus or deficit of the investee.

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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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.

8. Financial statements ~~in which the equity method is applied are not separate financial statements, nor are the financial statements~~ of an entity that does not have a controlled entity, associate or venturer's interest in a joint venture are not separate financial statements.
9. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which the venturer's interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.
10. Entities that are exempted in accordance with paragraph 16 of IPSAS 6, "Consolidated and Separate Financial Statements" from consolidation, paragraph 3 of IPSAS 8, "Interests in Joint Ventures" from applying proportionate consolidation or paragraph 19(c) of this Standard from applying the equity method may present separate financial statements as their only financial statements.

Significant Influence

11. Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this Standard. This Standard applies only to those associates in which an entity holds an ownership interest.
12. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
 - (a) representation on the board of directors or equivalent governing body of the investee;
 - (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
 - (c) material transactions between the investor and the investee;
 - (d) interchange of managerial personnel; or
 - (e) provision of essential technical information.
13. If the investor's ownership interest is in the form of shares and it holds, directly or indirectly (eg through controlled entities), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the

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case. Conversely, if the investor holds, directly or indirectly (eg through controlled entities), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

14. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or reduce another party's voting power over the financial and operating policies of another entity (i.e. potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
15. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.
16. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of another government, a court, administrator or regulator. It could also occur as a result of a binding agreement.

Equity Method

17. Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of surplus or deficit of the investee after the date of acquisition. The investor's share of the surplus or deficit of the investee is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's surplus or deficit. Such changes include those arising from the revaluation of property, plant,

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equipment and from foreign exchange translation differences. The investor's share of those changes is recognized directly in net assets/equity of the investor.

18. When potential voting rights exist, the investor's share of surplus or deficit of the investee and of changes in the investee's net assets/equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

Application of the Equity Method

19. **An investment in an associate shall be accounted for using the equity method except when:**
- (a) **there is evidence that the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;**
 - (b) **the exception in paragraph 16 of IPSAS 6, allowing a controlling entity that also has an investment in an associate not to present consolidated financial statements, applies; or**
 - (c) **all of the following apply:**
 - (i) **the investor is:**
 - **a wholly-owned controlled entity and users of financial statements prepared by applying the equity method are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements, or**
 - **a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;**
 - (ii) **the investor's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**
 - (iii) **the investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market; and**
 - (iv) **the ultimate or any intermediate controlling entity of the investor produces consolidated financial statements**

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available for public use that comply with International Public Sector Accounting Standards.

20. **Investments described in paragraph 19(a) shall be classified as held for trading and accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.**
21. When an investment in an associate previously accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments is not disposed of within twelve months, it shall be accounted for using the equity method as from the date of acquisition. Financial statements for the periods since acquisition shall be restated.
22. Exceptionally, an entity may have found a buyer for an associate described in paragraph 19(a), but may not have completed the sale within twelve months because of the need for approval by regulators or others. The entity is not required to apply the equity method to an investment in such an associate if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.
23. The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate because the distributions received may bear little relation to the performance of the associate. In particular, where the associate has not-for-profit objectives, investment performance will be determined by factors such as the cost of outputs and overall service delivery. Because the investor has significant influence over the associate, the investor has an interest in the associate's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of surpluses or deficits of such an associate. As a result, application of the equity method provides more informative reporting of the net assets/equity and surplus or deficit of the investor.
24. **An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments from that date, provided the associate does not become a controlled entity or a joint venture as defined in IPSAS 8.**
25. **The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with the relevant international or national**

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accounting standard dealing with the recognition and measurement of financial instruments.

26. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in IPSAS 6. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate.
27. An economic entity's share in an associate is the aggregate of the holdings in that associate by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate has controlled entities, associates or joint ventures, the surpluses or deficits and net assets taken into account in applying the equity method are those recognized in the associate's financial statements (including the associate's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 32 and 33).
28. Surpluses and deficits resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated controlled entities) and an associate are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's surpluses and deficits resulting from these transactions is eliminated.
29. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. Guidance on accounting for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is treated as goodwill (guidance can be found in the relevant international or national accounting standard dealing with business combinations). Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the surpluses or deficits after acquisition are made to account, for example, for depreciation of the depreciable assets, based on their fair values at the date of acquisition.
30. **The most recent available financial statements of the associate are used by the investor in applying the equity method. When the reporting dates of the investor and the associate are different, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.**

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31. **When, in accordance with paragraph 30, the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.**
32. **The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**
33. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.
34. If an associate has outstanding cumulative preferred shares that are held by parties other than the investor and classified as net assets/equity, the investor computes its share of surpluses or deficits after adjusting for the dividends on such shares, whether or not the dividends have been declared.
35. If an investor's share of deficits of an associate equals or exceeds its interest in the associate, the investor discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognized under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (ie priority of liquidation).
36. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, the investor resumes recognizing its share of those surpluses only after its share of the surpluses equals the share of deficits not recognized.

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Impairment Losses

37. After application of the equity method, including recognizing the associate's losses in accordance with paragraph 35, the investor applies the requirements of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments to determine whether it is necessary to recognize any additional impairment loss with respect to the investor's net investment in the associate.
38. The investor also applies the requirements of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments to determine whether any additional impairment loss is recognized with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of the impairment loss.
39. If application of the requirements in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments indicates that the investment may be impaired, an entity applies International Public Sector Accounting Standard (IPSAS) 21, "Impairment of Non-Cash Generating Assets". IPSAS 21 directs an entity to refer IAS 36 to determine the value in use of the cash-generating investment. Based on IAS 36, an entity estimates:
 - (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or
 - (b) the present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with IAS 36. Therefore, it is allocated first to any remaining goodwill (see paragraph 29).

40. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate Financial Statements

41. **An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 58-64 of IPSAS 6.**
42. This Standard does not mandate which entities produce separate financial statements available for public use.

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Disclosure

43. The following disclosures shall be made:

- (a) the fair value of investments in associates for which there are published price quotations;
- (b) summarized financial information of associates, including the aggregated amounts of assets, liabilities, revenues and surplus or deficit;
- (c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;
- (d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 per cent or more of the voting power of the investee but concludes that it does not have significant influence;
- (e) the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;
- (f) the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or similar distributions, or repayment of loans or advances;
- (g) the unrecognized share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;
- (h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 19; and
- (i) summarized financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and surpluses or deficits.

44. Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the surplus or

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deficit of such associates, and the carrying amount of these investments shall be separately disclosed. The investor's share of any discontinuing operations of such associates shall also be separately disclosed.

45. **The investor's share of changes recognized directly in the associate's net assets/equity shall be recognized directly in net assets/equity by the investor and shall be disclosed in the statement of changes in net assets/equity as required by International Public Sector Accounting Standard IPSAS 1, "Presentation of Financial Statements".**
46. **In accordance with International Public Sector Accounting Standard IPSAS 19, "Provisions, Contingent Liability and Contingent Assets", the investor shall disclose:**
 - (a) **its share of the contingent liabilities of an associate incurred jointly with other investors; and**
 - (b) **those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.**

Effective Date

47. **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after January 1, 2008DD MM-YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008DD-MM-YYYY, it shall disclose that fact.**
48. 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 7 (2000)

49. This Standard supersedes IPSAS 7, "Accounting for Investments in Associates" issued in 2000.

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Appendix

Amendments to Other Pronouncements

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

In International Public Sector Accounting Standards, applicable at MM YYYY, references to the current version of IPSAS 7, “Accounting for Investments in Associates” are amended to IPSAS 7, “Investments in Associates”.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)¹ as part of its General Improvements Project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.

BC4. IPSAS 7, issued in May 2000 was based on IAS 28 (Reformatted 1994), "Accounting for Investments in Associates" which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)², actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

¹ The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

² The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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BC5. The IPSASB reviewed the improved IAS 28 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).

BC6. IAS 28 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 7 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

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Table of Concordance

This table shows how the contents of the superseded version of IPSAS 7 and the current version of IPSAS 7 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

<u>Superseded IPSAS 7 paragraphs</u>	<u>Current IPSAS 7 paragraph</u>	<u>Superseded IPSAS 7 paragraphs</u>	<u>Current IPSAS 7 paragraph</u>	<u>Superseded IPSAS 7 paragraphs</u>	<u>Current IPSAS 7 paragraph</u>
<u>1</u>	<u>1</u>	<u>20</u>	<u>None</u>	<u>39</u>	<u>46</u>
<u>2</u>	<u>3</u>	<u>21</u>	<u>21</u>	<u>40</u>	<u>43</u>
<u>3</u>	<u>4</u>	<u>22</u>	<u>None</u>	<u>41</u>	<u>44</u>
<u>4</u>	<u>5</u>	<u>23</u>	<u>None</u>	<u>42</u>	<u>None</u>
<u>5</u>	<u>6</u>	<u>24</u>	<u>None</u>	<u>43</u>	<u>47</u>
<u>6</u>	<u>7</u>	<u>25</u>	<u>None</u>	<u>44</u>	<u>48</u>
<u>7</u>	<u>None</u>	<u>26</u>	<u>None</u>	<u>None</u>	<u>2</u>
<u>8</u>	<u>None</u>	<u>27</u>	<u>None</u>	<u>None</u>	<u>8 – 10</u>
<u>9</u>	<u>None</u>	<u>28</u>	<u>None</u>	<u>None</u>	<u>14 – 16</u>
<u>10</u>	<u>None</u>	<u>29</u>	<u>26</u>	<u>None</u>	<u>18</u>
<u>11</u>	<u>17</u>	<u>30</u>	<u>None</u>	<u>None</u>	<u>20 – 22</u>
<u>12</u>	<u>None</u>	<u>31</u>	<u>29</u>	<u>None</u>	<u>25</u>
<u>13</u>	<u>None</u>	<u>32</u>	<u>30</u>	<u>None</u>	<u>27 – 28</u>
<u>14</u>	<u>None</u>	<u>33</u>	<u>31</u>	<u>None</u>	<u>37 – 38</u>
<u>15</u>	<u>11</u>	<u>34</u>	<u>32 – 33</u>	<u>None</u>	<u>40 – 42</u>
<u>16</u>	<u>12</u>	<u>35</u>	<u>34</u>	<u>None</u>	<u>45</u>
<u>17</u>	<u>13</u>	<u>36</u>	<u>35 – 36</u>	<u>None</u>	<u>49</u>
<u>18</u>	<u>19</u>	<u>37</u>	<u>39</u>		
<u>19</u>	<u>23</u>	<u>38</u>	<u>None</u>		

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 7
INVESTMENTS IN ASSOCIATES

Comparison with IAS 28

International Public Sector Accounting Standard IPSAS 7 “Investments in Associates” (Revised 2003) is drawn primarily from International Accounting Standard IAS 28, “Investments in Associates” (Revised 2003). At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 3, “Business Combinations” and IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations” to public sector entities. Therefore, IPSAS 7 does not reflect amendments made to IAS 27 consequent upon the issue of those Standards. The main differences between IPSAS 7 and IAS 28 are as follows:

- Commentary additional to that in IAS 28 has been included in IPSAS 7 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the associate in the form of a shareholding or other formal equity structure. IAS 28 does not contain similar ownership interest requirements. However, it is unlikely that equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure.
- IPSAS 7 uses different terminology, in certain instances, from IAS 28. The most significant examples are the use of the terms ~~“revenue”~~, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 7. The equivalent terms in IAS 28 are ~~“income”~~, “income statement”, “balance sheet” and “equity”.
- IPSAS 7 does not use the term “income”, which in IAS 28 has a broader meaning than the term “revenue”.
- IPSAS 7 contains a different set of definitions of technical terms from IAS 28 (paragraph 7).

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IPSAS 8—INTERESTS IN JOINT VENTURES

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 31 (Revised 2003), “Interests in Joint Ventures” published by the International Accounting Standards Board (IASB). Extracts from IAS 31 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of International Accounting Standards Committee Foundation (IASCF).

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International Public Sector Accounting Standard IPSAS 8

(revised 200X)

Interests in Joint Ventures

~~[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]~~

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 8
INTERESTS IN JOINT VENTURERS

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD 8—INTERESTS IN JOINT VENTURERS**

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International Public Sector Accounting Standard 8, “Interests in Joint Ventures” (IPSAS 8) is set out in paragraphs 1-71 and the Appendix. All the paragraphs have equal authority. IPSAS 8 should be read in the context of the Basis for Conclusion (if any), and the “Preface to 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.

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SUMMARY OF MAIN CHANGES

IPSAS 8 INTERESTS IN JOINT VENTURES

The main changes proposed are:

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 8, “Interests in Joint Ventures”, replaces IPSAS 8, “Financial Reporting of Interests in Joint Ventures” (issued May 2000), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 8

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 8 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 8, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 31, “Financial Reporting of Interests in Joint Ventures” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 31 for a public sector specific reason; such variances are retained in this IPSAS 8 and are noted in the Comparison with IAS 31. Any changes to IAS 31 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 8.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 8 are described below.

Title of the Standard

•IN5. The title of the Standard is changed to change the title of the Standard to “Interests in Joint Ventures”.

Scope

•IN6. The Standard ~~to~~ excludes from the scope in paragraph 1, venturers’ interests in jointly controlled entities that are recognized at fair value held by:

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- venture capital organizations, or
- mutual funds, unit trusts and similar entities including investment-linked insurance funds.

Previously, IPSAS 8 did not contain these exclusions from its scope.

Definitions

IN7. The Standard in paragraph 6:

- ~~to define~~includes a definition of a new term “separate financial statements”.
- ~~to remove~~does not include the following unnecessary terms: “accrual basis”, “assets”, “associates”, “cash”, “cash flows”, “contribution from owners”, “controlled entity”, “controlling entity”, “distribution to owners”, “economic entity”, “expenses”, “government business enterprises”, “liabilities”, “net assets/equity”, and “revenue”. These terms are defined in other IPSASs.
- ~~to remove~~does not include the term “net surplus/deficit”, which no longer exists.

IN8. The Standard ~~to include~~s in paragraphs 14 – 16 explanation of “separate financial statements”. Previously, IPSAS 8 did not contain these illustrations.

Exemptions from Applying Proportionate Consolidation or the Equity Method

IN9. ~~to The Standard~~ clarify ~~clarifies~~ in paragraphs 47 and paragraph 3(a) that applying proportionate consolidation or the equity method is not required when (a) an interest in a joint venture is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer.

IN10. ~~The proposed~~ IPSAS 8 further specifies in paragraph 49 that when a jointly controlled entity previously exempted from proportionate consolidation or the equity method is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method from the date of acquisition unless narrowly specified circumstances apply.

IN9. The words “in the near future” used in previous IPSAS 8 ~~were~~ have been replaced with the words “within twelve months”. There was no requirement that management must be actively seeking a buyer in previous IPSAS 8 for exemption from applying proportionate consolidation or the equity method.

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IN10. ~~to clarify~~ The Standard clarifies in paragraph 3(b) and 3(c) the exemptions from application of proportionate consolidation or the equity method, including when the venturer is:

- also a controlling entity exempt in accordance with IPSAS 6, “Consolidated and Separate Financial Statements” from preparing consolidated financial statements, or
- though not such a controlling entity, can satisfy the same type of conditions that exempt such controlling entities.

IN11. IPSAS 6 requires that a controlling entity need not present consolidated financial statements if and only if:

- the controlling entity is itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity’s consolidated financial statements; or is a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;
- the controlling entity’s debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- the controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
- the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

Previously, IPSAS 8 did not contain these exemptions.

IN12. ~~to~~ The Standard removedoes not include the previous paragraph 46(b) ~~to clarify~~ clarifying that severe long-term restrictions that significantly impair the ability to transfer funds to the venturer ~~does~~ not of ~~itself-themselves~~ justify not applying the proportionate consolidation or the equity method. Joint control must be lost before proportionate consolidation or the equity method ceases to apply.

Separate Financial Statements

IN13. ~~to~~ The Standard requires in paragraph 52 that a venturer should account for an interest in a jointly controlled entity in its separate financial statements in accordance with IPSAS 6. IPSAS 6 requires that the venturer shall account

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for its interest in a jointly controlled entity in its separate financial statements either at cost or as financial instruments in accordance with the relevant international or national accounting standard dealing with financial instruments.

Disclosure

▲IN14. ~~to~~The Standard requires in paragraph 64 that a venturer shall disclose the method it uses to recognize its interests in jointly controlled entities (i.e. proportionate consolidation or the equity method).

Amendments to Other IPSASs

▲IN15. ~~to~~The Standard includes an authoritative appendix of amendments to other IPSASs.

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 8—INTERESTS IN JOINT VENTURERS

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

- (a) **venture capital organizations, or**
- (b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds.**

that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

2. Guidance on recognition and measurement of interests identified in paragraph 1 that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change can be found in the relevant international or national accounting standard dealing with financial instruments.
3. **A venturer with an interest in a jointly controlled entity is exempted from paragraphs 35 (proportionate consolidation) and 43 (equity method) when it meets the following conditions:**
 - (a) **there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;**
 - (b) **the exception in paragraph 16 of IPSAS 6 Consolidated and Separate Financial Statements allowing a controlling entity that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or**
 - (c) **all of the following apply:**
 - (i) **the venturer is:**
 - **a wholly-owned controlled entity and users of financial statements prepared by applying proportionate consolidation or the equity method are unlikely to exist**

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or their information needs are met by the controlling entity's consolidated financial statements, or

- **a partially-owned controlled entity of another entity and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method;**
 - (ii) **the venturer's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**
 - (iii) **the venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market; and**
 - (iv) **the ultimate or any intermediate controlling entity of the venturer produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.**
4. **This Standard applies to all public sector entities other than Government Business Enterprises.**
5. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, "Presentation of Financial Statements".

Definitions

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

Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

The equity method (for the purpose of this Standard) is a method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets/equity of the jointly controlled entity.

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The surplus or deficit of the venturer includes the venturer's share of the surplus or deficit of the jointly controlled entity.

Investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

Joint control is the agreed sharing of control over an activity by a binding arrangement.

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

Proportionate consolidation is a method of accounting whereby a venturer's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies.

Venturer is a party to a joint venture and has joint control over that joint venture.

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.

Binding Arrangement

7. The existence of a binding arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence (see International Public Sector Accounting Standard (IPSAS) 7, "Investments in Associates"). For the purposes of this Standard, an arrangement includes all binding arrangements between venturers. That is, in substance, the arrangement confers similar rights and obligations on the parties to it as if it were in the form of a contract. For instance, two government departments may enter into a formal arrangement to undertake a joint venture but the arrangement may not constitute a legal contract because, in that jurisdiction, individual departments may not be separate legal entities

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with the power to contract. Activities that have no binding arrangement to establish joint control are not joint ventures for the purposes of this Standard.

8. The binding arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the binding arrangement is incorporated in the enabling legislation, articles or other by-laws of the joint venture. Whatever its form, the arrangement is usually in writing and deals with such matters as:
 - (a) the activity, duration and reporting obligations of the joint venture;
 - (b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
 - (c) capital contributions by the venturers; and
 - (d) the sharing by the venturers of the output, revenue, expenses, surpluses or deficits, or cash flows of the joint venture.
9. The binding arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to control the activity unilaterally. The arrangement identifies those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.
10. The binding arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies that have been agreed by the venturers in accordance with the arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the activity, it controls the venture and the venture is a controlled entity of the operator and not a joint venture.

Forms of Joint Venture

11. Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities ranges from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any), and expenses of each of the joint venturers.
12. Joint ventures take many different forms and structures. This Standard identifies three broad types — jointly controlled operations, jointly controlled assets and jointly controlled entities — that are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:

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- (a) two or more venturers are bound by a binding arrangement; and
- (b) the binding arrangement establishes joint control.

Joint Control

- 13. Joint control may be precluded when a joint venture is in legal reorganization or in bankruptcy, is subject to an administrative restructuring of government arrangements, or operates under severe long-term restrictions on its ability to transfer funds to the venturer. If joint control is continuing, these events are not enough in themselves to justify not accounting for joint ventures in accordance with this Standard.

Separate Financial Statements

- 14. Financial statements in which proportionate consolidation or the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a jointly controlled entity.
- 15. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements.
- 16. Entities that are exempted in accordance with paragraph 16 of IPSAS 6 from consolidation, paragraph 19(c) of IPSAS 7, "Investments in Associates" from applying the equity method or paragraph 3 of this Standard from applying proportionate consolidation or the equity method may present separate financial statements as their only financial statements.

Jointly Controlled Operations

- 17. The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale or provision of the joint product or service and any expenses incurred in common are shared among the venturers.
- 18. An example of a jointly controlled operation is when two or more venturers combine their operations, resources and expertise to manufacture, market and distribute jointly a particular product, such as an aircraft. Different parts of

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the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the binding arrangement. A further example is when two entities combine their operations, resources and expertise to jointly deliver a service, such as aged care where, in accordance with an agreement, a local government offers domestic services and a local hospital offers medical care. Each venturer bears its own costs and takes a share of revenue, such as user charges and government grants; such share being determined in accordance with the binding agreement.

19. **In respect of its interests in jointly controlled operations, a venturer shall recognize in its financial statements:**
 - (a) **the assets that it controls and the liabilities that it incurs; and**
 - (b) **the expenses that it incurs and its share of the revenue that it earns from the sale or provision of goods or services by the joint venture.**
20. Because the assets, liabilities, revenue (if any) and expenses are already recognized in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.
21. Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Assets

22. Some joint ventures involve the joint control, and often the joint ownership by, the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.
23. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits or service potential through its share of the jointly controlled asset.
24. Some activities in the public sector involve jointly controlled assets. For example, a local government may enter into an arrangement with a private sector corporation to construct a toll road. The road provides the citizens with improved access between the local government's industrial estate and its port

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facilities. The road also provides the private sector corporation with direct access between its manufacturing plant and the port. The agreement between the local authority and the private sector corporation specifies each party's share of revenues and expenses associated with the toll road. Accordingly, each venturer derives economic benefits or service potential from the jointly controlled asset and bears an agreed proportion of the costs of operating the road. Similarly, many activities in the oil, gas and mineral extraction industries involve jointly controlled assets. For example, a number of oil production companies may jointly control and operate an oil pipeline. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expenses of operating the pipeline. Another example of a jointly controlled asset is when two entities jointly control a property, each taking a share of the rents received and bearing a share of the expenses.

25. **In respect of its interest in jointly controlled assets, a venturer shall recognize in its financial statements:**
 - (a) **its share of the jointly controlled assets, classified according to the nature of the assets;**
 - (b) **any liabilities that it has incurred;**
 - (c) **its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;**
 - (d) **any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and**
 - (e) **any expenses that it has incurred in respect of its interest in the joint venture.**
26. In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognizes in its financial statements:
 - (a) its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled road is classified as property, plant and equipment.
 - (b) any liabilities that it has incurred, for example those incurred in financing its share of the assets.
 - (c) its share of any liabilities incurred jointly with other venturers in relation to the joint venture.
 - (d) any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture.

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- (e) any expenses that it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer's interest in the assets and selling its share of the output.
27. Because the assets, liabilities, revenue and expenses are recognized in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.
 28. The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Entities

29. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a binding arrangement between the venturers establishes joint control over the activity of the entity.
30. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns revenue. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the surpluses of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.
31. A common example of a jointly controlled entity is when two entities combine their activities in a particular line of service delivery by transferring the relevant assets and liabilities into a jointly controlled entity. Another example arises when an entity commences a business in a foreign country in conjunction with a government or other agency in that country, by establishing a separate entity that is jointly controlled by the entity and the government or agency in the foreign country.
32. Many jointly controlled entities are similar in substance to those joint ventures referred to as jointly controlled operations or jointly controlled assets. For example, the venturers may transfer a jointly controlled asset, such as a road, into a jointly controlled entity, for tax or other reasons. Similarly, the venturers may contribute into a jointly controlled entity assets that will be operated jointly. Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of

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the activity, for example, the design, marketing, distribution or after-sales service of the product.

33. A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with International Public Sector Accounting Standards or other accounting standards if appropriate.
34. Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognized in its financial statements as an investment in the jointly controlled entity.

Financial Statements of a Venturer

Proportionate Consolidation

35. **A venturer shall recognize its interest in a jointly controlled entity using proportionate consolidation or the alternative method described in paragraph 43. When proportionate consolidation is used, one of the two reporting formats identified below shall be used.**
36. A venturer recognizes its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation irrespective of whether it also has investments in controlled entities or whether it describes its financial statements as consolidated financial statements.
37. When recognizing an interest in a jointly controlled entity, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form. In a jointly controlled entity, a venturer has control over its share of future economic benefits or service potential through its share of the assets and liabilities of the venture. This substance and economic reality are reflected in the consolidated financial statements of the venturer when the venturer recognizes its interests in the assets, liabilities, revenue and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 39.
38. The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of financial performance of the venturer includes its share of the revenue and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in controlled entities, which are set out in IPSAS 6.

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39. Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, revenue and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. For example, it may combine its share of the jointly controlled entity's inventory with its inventory and its share of the jointly controlled entity's property, plant and equipment with its property, plant and equipment. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, revenue and expenses of the jointly controlled entity in its financial statements. For example, it may show its share of a current asset of the jointly controlled entity separately as part of its current assets; it may show its share of the property, plant and equipment of the jointly controlled entity separately as part of its property, plant and equipment. Both these reporting formats result in the reporting of identical amounts of surplus or deficit and of each major classification of assets, liabilities, revenue and expenses; both formats are acceptable for the purposes of this Standard.
40. Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any revenue or expenses by the deduction of other expenses or revenue, unless a legal right of set-off exists and the offsetting represents the expectation as to the realization of the asset or the settlement of the liability.
41. **A venturer shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.**
42. A venturer discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity. This may happen, for example, when the venturer disposes of its interest or when such external restrictions are placed on the jointly controlled entity that the venturer no longer has joint control.

Equity Method

43. **As an alternative to proportionate consolidation described in paragraph 35, a venturer shall recognize its interest in a jointly controlled entity using the equity method.**
44. A venturer recognizes its interest in a jointly controlled entity using the equity method irrespective of whether it also has investments in controlled entities or whether it describes its financial statements as consolidated financial statements.
45. Some venturers recognize their interests in jointly controlled entities using the equity method, as described in IPSAS 7. The use of the equity method is supported by those who argue that it is inappropriate to combine controlled

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items with jointly controlled items and by those who believe that venturers have significant influence, rather than joint control, in a jointly controlled entity. This Standard does not recommend the use of the equity method because proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, that is to say, control over the venturer's share of the future economic benefits or service potential. Nevertheless, this Standard permits the use of the equity method, as an alternative treatment, when recognizing interests in jointly controlled entities.

46. **A venturer shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.**

Exceptions to Proportionate Consolidation and Equity Method

47. **Interests in jointly controlled entities for which there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer, as set out in paragraph 3(a), shall be classified and accounted for as held for trading financial instruments in accordance with the relevant international or national accounting standard dealing with financial instruments.**
48. Guidance on the recognition and measurement of financial instruments dealt with in paragraph 47 can be found in the relevant international or national accounting standard dealing with financial instruments.
49. When, in accordance with paragraphs 3(a) and 47, an interest in a jointly controlled entity previously accounted for as a held for trading financial instrument is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method as from the date of acquisition. (Guidance on the meaning of the date of acquisition can be found in the relevant international or national accounting standard dealing with business combinations.) Financial statements for the periods since acquisition shall be restated.
50. Exceptionally, a venturer may have found a buyer for an interest described in paragraphs 3(a) and 47, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The venturer is not required to apply proportionate consolidation or the equity method to an interest in a jointly controlled entity if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.
51. **From the date on which a jointly controlled entity becomes a controlled entity of a venturer, the venturer shall account for its interest in**

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accordance with IPSAS 6. From the date on which a jointly controlled entity becomes an associate of a venturer, the venturer shall account for its interest in accordance with IPSAS 7.

Separate Financial Statements of a Venturer

52. **An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 58-64 of IPSAS 6.**
53. This Standard does not mandate which entities produce separate financial statements available for public use.

Transactions between a Venturer and a Joint Venture

54. **When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognize only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognize the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realizable value of current assets or an impairment loss.**
55. **When a venturer purchases assets from a joint venture, the venturer shall not recognize its share of the gains of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognize its share of the losses resulting from these transactions in the same way as gains except that losses shall be recognized immediately when they represent a reduction in the net realizable value of current assets or an impairment loss.**
56. To assess whether a transaction between a venturer and a joint venture provides evidence of impairment of an asset, the venturer determines the recoverable amount or recoverable service amount of the assets in accordance with IPSAS 21, "Impairment of Non-Cash-Generating Assets". In determining value in use of a cash-generating asset, the venturer estimates future cash flows from the asset on the basis of continuing use of the asset and its ultimate disposal by the joint venture. In determining value in use of a non-cash-generating asset, the venturer estimates the present value of the remaining service potential of the asset using the approaches specified in IPSAS 21.

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Reporting Interests in Joint Ventures in the Financial Statements of an Investor

57. **An investor in a joint venture that does not have joint control, but does have significant influence shall account for its interest in a joint venture in accordance with IPSAS 7.**
58. Guidance on accounting for interests in joint ventures where an investor does not have joint control or significant influence can be found in the relevant international or national accounting standard dealing with financial instruments.

Operators of Joint Ventures

59. **Operators or managers of a joint venture shall account for any fees in accordance with IPSAS 9, “Revenue from Exchange Transactions”.**
60. One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

Disclosure

61. **A venturer shall disclose:**
 - (a) **the aggregate amount of the following contingent liabilities, unless the possibility of any outflow in settlement is remote, separately from the amount of other contingent liabilities:**
 - (i) **any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;**
 - (ii) **its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and**
 - (iii) **those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture; and**
 - (b) **a brief description of the following contingent assets and, where practicable, an estimate of their financial effect, where an inflow of economic benefits or service potential is probable:**
 - (i) **any contingent assets of the venturer arising in relation to its interests in joint ventures and its share in each of the contingent assets that have arisen jointly with other venturers; and**

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- (ii) **its share of the contingent assets of the joint ventures themselves.**

62. **A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:**
- (a) **any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and**
 - (b) **its share of the capital commitments of the joint ventures themselves.**
63. **A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognizes its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, revenue and expenses related to its interest in joint ventures.**
64. **A venturer shall disclose the method it uses to recognize its interests in jointly controlled entities.**

Transitional Provisions

65. **Where the proportionate consolidation treatment set out in this Standard is adopted, venturers are not required to eliminate balances and transactions between themselves, their controlled entities and entities that they jointly control for reporting periods beginning on a date within three years following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards.**
66. **Entities that adopt accrual accounting for the first time in accordance with International Public Sector Accounting Standards may have many controlled and jointly controlled entities with a significant number of transactions between these entities. Accordingly, it may initially be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the financial statements. For this reason, paragraph 65 provides temporary relief from eliminating in full balances and transactions between entities and their jointly controlled entities.**
67. **Where entities apply the transitional provision in paragraph 65, they shall disclose the fact that not all inter-entity balances and transactions have been eliminated.**

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68. Transitional provisions in IPSAS 8 (2000) provide entities with a period of up to three years to fully eliminate balances and transactions between entities within the economic entity from the date of its first application. Entities that have previously applied IPSAS 8 (2000) may continue to take advantage of this three-year transitional provisional period from the date of first application of IPSAS 8 (2000).

Effective Date

69. An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after ~~MM-DD-YYYY~~January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before ~~MM-DD-YYYY~~January 1, 2008, it shall disclose that fact.
70. 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 8 (2001)

71. This Standard supersedes IPSAS 8, "Financial Reporting of Interests in Joint Ventures" issued in 2001.

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Appendix

Amendments to Other IPSASs

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 International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 8, “Financial Reporting of Interests in Joint Ventures” are amended to IPSAS 8, “Interests in Joint Ventures”.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)¹ as part of its General Improvements Project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.

BC4. IPSAS 8, issued in May 2000 was based on IAS 31 (Reformatted 1994), "Financial Reporting of Interests in Joint Ventures" which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)², actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

¹ The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

² The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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BC5. The IPSASB reviewed the improved IAS 31 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).

BC6. IAS 31 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 7 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

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Table of Concordance

This table shows how the contents of the superseded version of IPSAS 8 and the current of IPSAS 8 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

<u>Superseded IPSAS 8 paragraphs</u>	<u>Current IPSAS 8 paragraph</u>	<u>Superseded IPSAS 8 paragraphs</u>	<u>Current IPSAS 8 paragraph</u>	<u>Superseded IPSAS 8 paragraphs</u>	<u>Current IPSAS 8 paragraph</u>
<u>1</u>	<u>1</u>	<u>27</u>	<u>26</u>	<u>53</u>	<u>56</u>
<u>2</u>	<u>None</u>	<u>28</u>	<u>27</u>	<u>54</u>	<u>57</u>
<u>3</u>	<u>4</u>	<u>29</u>	<u>28</u>	<u>55</u>	<u>58</u>
<u>4</u>	<u>5</u>	<u>30</u>	<u>29</u>	<u>56</u>	<u>59</u>
<u>5</u>	<u>6</u>	<u>31</u>	<u>30</u>	<u>57</u>	<u>60</u>
<u>6</u>	<u>7</u>	<u>32</u>	<u>31</u>	<u>58</u>	<u>61</u>
<u>7</u>	<u>8</u>	<u>33</u>	<u>32</u>	<u>59</u>	<u>62</u>
<u>8</u>	<u>9</u>	<u>34</u>	<u>33</u>	<u>60</u>	<u>63</u>
<u>9</u>	<u>10</u>	<u>35</u>	<u>34</u>	<u>61</u>	<u>None</u>
<u>10</u>	<u>None</u>	<u>36</u>	<u>35</u>	<u>62</u>	<u>None</u>
<u>11</u>	<u>None</u>	<u>37</u>	<u>37</u>	<u>63</u>	<u>65</u>
<u>12</u>	<u>None</u>	<u>38</u>	<u>38</u>	<u>64</u>	<u>66</u>
<u>13</u>	<u>11</u>	<u>39</u>	<u>39</u>	<u>65</u>	<u>67</u>
<u>14</u>	<u>12</u>	<u>40</u>	<u>40</u>	<u>66</u>	<u>69</u>
<u>15</u>	<u>None</u>	<u>41</u>	<u>41</u>	<u>67</u>	<u>70</u>
<u>16</u>	<u>None</u>	<u>42</u>	<u>42</u>	<u>None</u>	<u>2</u>
<u>17</u>	<u>None</u>	<u>43</u>	<u>43</u>	<u>None</u>	<u>3</u>
<u>18</u>	<u>17</u>	<u>44</u>	<u>45</u>	<u>None</u>	<u>13 – 16</u>
<u>19</u>	<u>18</u>	<u>45</u>	<u>46</u>	<u>None</u>	<u>36</u>
<u>20</u>	<u>19</u>	<u>46</u>	<u>47</u>	<u>None</u>	<u>44</u>
<u>21</u>	<u>20</u>	<u>47</u>	<u>48</u>	<u>None</u>	<u>49 – 50</u>
<u>22</u>	<u>21</u>	<u>48</u>	<u>None</u>	<u>None</u>	<u>52 – 53</u>
<u>23</u>	<u>22</u>	<u>49</u>	<u>51</u>	<u>None</u>	<u>64</u>
<u>24</u>	<u>23</u>	<u>50</u>	<u>None</u>	<u>None</u>	<u>68</u>
<u>25</u>	<u>24</u>	<u>51</u>	<u>54</u>	<u>None</u>	<u>71</u>
<u>26</u>	<u>25</u>	<u>52</u>	<u>55</u>		

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 8
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Comparison with IAS 31

International Public Sector Accounting Standard IPSAS 8 *Interests in Joint Ventures* is drawn primarily from International Accounting Standard IAS 31, *Interests in Joint Ventures*. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 3, “Business Combinations” and IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations” to public sector entities. Therefore, IPSAS 8 does not reflect amendments made to IAS 31 consequent on the issue of IFRS 3 and IFRS 5. The main differences between IPSAS 8 and IAS 31 are as follows:

- Commentary additional to that in IAS 31 has been included in IPSAS 8 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 8 uses different terminology, in certain instances, from IAS 31. The most significant examples are the use of the terms ~~“revenue”~~, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 8. The equivalent terms in IAS 31 are ~~“income”~~, “income statement”, “balance sheet” and “equity”.
- IPSAS 8 does not use the term “income”, which in IAS 31 has a broader meaning than the term “revenue”.
- IPSAS 8 uses a different definition of joint venture from IAS 31. The term “contractual arrangement” has been replaced by “binding arrangement”.
- IPSAS 8 includes a transitional provision that permits entities which adopt proportionate consolidation treatment to not eliminate all balances and transactions between venturers, their controlled entities and entities that they jointly control for reporting periods beginning on a date within three years following the date of adopting accrual accounting for the first time in accordance with International Public Sector Accounting Standards. IAS 31 does not contain transitional provisions.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 12—INVENTORIES

Objective

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

Scope

[Add new paragraphs 3 and 8]

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories, except:**
 - (a) **work in progress arising under construction contracts, including directly related service contracts (see International Public Sector Accounting Standard IPSAS 11, “Construction Contracts”);**
 - (b) **financial instruments;**
 - (c) **biological assets related to agricultural activity and agricultural produce at the point of harvest (see the relevant international or national accounting standard dealing with agriculture); and**
 - (d) **work in progress of services to be provided for no or nominal consideration directly in return from the recipients.**
3. **This Standard does not apply to the measurement of inventories held by:**
 - (a) **producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in surplus or deficit in the period of the change.**
 - (b) **commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in surplus or deficit in the period of the change.**

6. The inventories referred to in paragraph 2(d) are not encompassed by International Accounting Standard IAS 2, "Inventories" and are excluded from the scope of this Standard because they involve specific public sector issues that require further consideration.
7. The inventories referred to in paragraph 3(a) are measured at net realizable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.
8. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a surplus from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

Definitions

[Add a new defined term in new paragraph 9 and add new paragraph 10]

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

.....

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

Net Realizable Value

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

Measurement of Inventories

[Delete former paragraph 15, add new paragraphs 26 and 28]

Costs of Purchase

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 12
INVENTORIES

Other Costs

~~21~~**24.** Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

- ~~—(a)~~ Abnormal amounts of wasted materials, labor, or other production costs;
- ~~—(b)~~ Storage costs, unless those costs are necessary in the production process ~~prior to~~**before** a further production stage;
- ~~—(c)~~ Administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- ~~—(d)~~ Selling costs.

~~22~~**25.** ~~In limited circumstances, borrowing costs are included in the cost of inventories. These circumstances are identified in the allowed alternative treatment in IPSAS 5, “Borrowing Costs.”~~ identifies limited circumstances where borrowing costs are included in the cost of inventories.

26. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

Cost of Inventories of a Service Provider

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

Cost of Agricultural Produce Harvested from Biological Assets

28. In accordance with the relevant international or national accounting standard dealing with agriculture, inventories comprising agricultural produce that an entity has harvested from its biological assets may be measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. In this case, this is the cost of the inventories at that date for application of this Standard.

Net Realizable Value

32. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made ~~as to of~~ the amount the inventories are expected to realize. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.
- ~~34~~39. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold, exchanged or distributed at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products ~~will exceed~~exceeds net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.
40. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. This occurs, for example, when an item of inventory that is carried at net realizable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Recognition as an Expense

42. **When inventories are sold, exchanged or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when the goods are distributed, or related service is rendered. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.**
43. For a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 12
INVENTORIES

Disclosure

[Delete former paragraphs 42 and 45]

45. **The financial statements shall disclose:**

- ~~—(a)~~ **the accounting policies adopted in measuring inventories, including the cost formula used;**
- ~~—(b)~~ **the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;**
- ~~—(c)~~ **the carrying amount of inventories carried at fair value less costs to sell;**
- ~~—(d)~~ **the amount of inventories recognized as an expense during the period;**
- ~~—(e)~~ **the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 42;**
- ~~—(f)~~ **the amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as expense in the period in accordance with paragraph 42;**
- ~~—(g)~~ **the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 42; and**
- ~~—(h)~~ **the carrying amount of inventories pledged as security for liabilities.**

~~44~~46. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods. The inventories of a service provider may ~~simply~~ be described as work in progress

~~43~~47. The ~~cost amount~~ of inventories recognized as an expense during the period consists of those costs previously included in the measurement of ~~the items of~~ inventory ~~that has now been~~ sold, exchanged or distributed, and unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other costs, such as distribution costs.

48. Some entities adopt a format for surplus or deficit that results in amounts being disclosed other than the cost of inventories recognized as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognized as an expense for raw materials and

consumables, labor costs and other costs together with the amount of the net change in inventories for the period.

IPSAS 12—INVENTORIES

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 2 (revised ~~1993~~2003), “Inventories” published by the International Accounting Standards ~~Committee~~Board (~~IASCIASB~~). ~~The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The International Accounting Standards (IASs) issued by IASC remain in force until they are amended or withdrawn by IASB.~~ Extracts from IAS 2 are reproduced in this publication of the International Public Sector ~~Committee~~ Accounting Standards Board of the International Federation of Accountants with the permission of IASB.

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~~July 2001~~December 2006**IPSAS 12—INVENTORIES****CONTENTS**

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International Public Sector Accounting Standard 12, “Inventories” (IPSAS 12) is set out in paragraphs 1-51. All the paragraphs have equal authority. IPSAS 12 should be read in the context of the Basis for Conclusion, and the “Preface to 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.

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 12, “Inventories”, replaces IPSAS 12, “Inventories” (issued July 2001), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 12

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 12 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 12, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 2, “Inventories” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 2 for a public sector specific reason; such variances are retained in this IPSAS 12 and are noted in the Comparison with IAS 2. Any changes to IAS 2 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 12.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 12 are described below.

Objective and Scope

IN5. The Standard clarifies in paragraphs 1 and 2 that the Standard applies to all inventories that are not specifically excluded from its scope. Previously, IPSAS12 applied to “accounting for inventories under the historical cost system”.

IN6. The Standard establishes a clear distinction between those inventories (a) that are entirely outside the scope of the Standard; and (b) that are outside the scope of measurement requirements but within the scope of the other requirements in the Standard (see paragraphs 2 and 3).

IN7. Inventories that are outside the measurement requirements of the Standard are those held by: (a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries, and (b) commodity broker-traders measured at fair value less costs to sell.

IN8. To qualify for this exemption, changes in recognized amounts of these inventories are to be included in surplus or deficit in the period of the changes.

IN9. Previously, IPSAS 12 did not make this distinction with respect to scope exemptions.

Cost of Inventories

IN10. The Standard prohibits exchange differences arising directly on the recent acquisitions of inventories invoiced in a foreign currency from being included in the cost of purchase of inventories (see previous paragraph 15).

IN11. Previously, this was allowed under the allowed alternative treatment contained in the superseded version of IPSAS 4, “The Effects of Changes in Foreign Exchanges Rates”. This alternative treatment has also been eliminated in IPSAS 4.

IN12. The Standard requires in paragraph 26 that when inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of financing. Previously, IPSAS 12 did not contain this requirement.

Disclosures

IN13. The Standard requires the following additional disclosure items (see paragraph 45):

- the carrying amount of inventories carried at fair value less costs to sell.
- the amount of any write-down of inventories recognized as an expense in the period.

IN14. Previously, IPSAS 12 did not contain these disclosure requirements

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

Scope

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

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

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

- (a) **producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in**

accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in surplus or deficit in the period of the change.

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

2.4. **This Standard applies to all public sector entities other than Government Business Enterprises.**

3.5. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements”. Government Business Enterprises (GBEs) are required to comply with 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.

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

4.7. The inventories referred to in paragraph 43(ea) ~~may be~~ are measured at net realizable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals ~~ores~~ have been extracted and sale is assured under a forward contract or a government guarantee, or when an homogenous-active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the scope-measurement requirements of this Standard.

8. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a surplus from fluctuations in price or broker-traders’ margin. When these

inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

Definitions

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

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

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.

Inventories are assets:

- (a) In the form of materials or supplies to be consumed in the production process;
- (b) In the form of materials or supplies to be consumed or distributed in the rendering of services;
- (c) Held for sale or distribution in the ordinary course of operations; or
- (d) In the process of production for sale or distribution.

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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.

Net Realizable Value

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

Inventories

7.11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge; for example, educational books produced by a health authority for donation to schools. In many public sector entities inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. In the case of a service provider, inventories include the costs of the service, as described in paragraph ~~23~~27, for which the entity has not yet recognized the related revenue (guidance on recognition of revenue can be found in IPSAS 9, “Revenue from Exchange Transactions”).

8.12. Inventories in the public sector may include:

- (a) Ammunition;
- (b) Consumable stores;
- (c) Maintenance materials;
- (d) Spare parts for plant and equipment other than those dealt with in Standards on Property, Plant And Equipment;
- (e) Strategic stockpiles (for example, energy reserves);
- (f) Stocks of unissued currency;
- (g) Postal service supplies held for sale (for example, stamps);
- (h) Work in progress, including:
 - (i) Educational/training course materials; and
 - (ii) Client services (for example, auditing services) where those services are sold at arm’s length prices; and
- (i) Land/property held for sale.

9.13. Where the government controls the rights to create and issue various assets, including postal stamps and currency, these items of inventory are recognized as inventories for the purposes of this Standard. They are not reported at face value, but measured in accordance with paragraph ~~11~~15, that is at their printing or minting cost.

10.14. When a government maintains strategic stockpiles of various reserves, such as energy reserves (for example, oil), for use in emergency or other

situations (for example, natural disasters or other civil defense emergencies), these stockpiles are recognized as inventories for the purposes of this Standard and treated accordingly.

Measurement of Inventories

~~11.15.~~ **Inventories ~~should~~ shall be measured at the lower of cost and net realizable value, except where paragraph ~~12-16~~ applies.**

~~12.16.~~ **Inventories ~~should~~ shall be measured at the lower of cost and current replacement cost where they are held for:**

- (a) **Distribution at no charge or for a nominal charge; or**
- (b) **Consumption in the production process of goods to be distributed at no charge or for a nominal charge.**

Cost of Inventories

~~13.17.~~ **The cost of inventories ~~should~~ shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.**

Costs of Purchase

~~14.18.~~ **The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and supplies. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.**

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

Costs of Conversion

~~16.19.~~ **The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless**

of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labor.

17-20. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

18-21. For example, the allocation of costs, both fixed and variable, incurred in the development of undeveloped land held for sale into residential or commercial landholdings, could include costs relating to landscaping, drainage, pipe laying for utility connection, etc.

19-22. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realizable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other Costs

20-23. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

21-24. Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

- (a) Abnormal amounts of wasted materials, labor, or other production costs;
- (b) Storage costs, unless those costs are necessary in the production process ~~prior to~~ before a further production stage;
- (c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- (d) Selling costs.

~~22-25.~~ ~~In limited circumstances, borrowing costs are included in the cost of inventories. These circumstances are identified in the allowed alternative treatment in IPSAS 5, "Borrowing Costs:" identifies limited circumstances where borrowing costs are included in the cost of inventories.~~

26. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

Cost of Inventories of a Service Provider

23-27. To the extent that service providers have inventories except those referred to in paragraph 2(d), they measure them at the costs of their production. The-These costs of inventories of a service provider consists primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. The costs of labor not engaged in providing the service are not included. Labor and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include surplus margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of Agricultural Produce Harvested from Biological assets

28. In accordance with the relevant international or national accounting standard dealing with agriculture, inventories comprising agricultural produce that an entity has harvested from its biological assets may be measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Techniques for the Measurement of Cost

24.29. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.

Cost Formulas

25.30. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects ~~should~~ **shall** be assigned by using specific identification of their individual costs.

26.31. Specific identification of costs means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project. However, specific identification of costs is inappropriate when there are large numbers of items of inventory which are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the net surplus or deficit for the period.

27.32. When applying paragraph ~~28-33~~ an entity ~~should~~ **shall** use the same cost formula for all inventories having similar nature and use to the entity. For inventories with different nature or use (for example, certain commodities used in one segment and the same type of commodities used in another segment), different cost formulas may be justified. A difference in geographical location of inventories (and in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

28.33. The cost of inventories, other than those dealt with in paragraph ~~2530~~, ~~should~~ **shall** be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas.

29.34. The FIFO formula assumes that the items of inventory which were purchased first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net Realizable Value

30.35. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have

declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale, exchange or distribution have increased. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets should not be carried in excess of the future economic benefits or service potential expected to be realized from their sale, exchange, distribution or use.

~~31.36.~~ Inventories are usually written down to net realizable value on an item by item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory that have similar purposes or end uses and cannot practicably be evaluated separately from other items in that product line. It is not appropriate to write-down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular operation or geographical segment. Service providers generally accumulate costs in respect of each service for which a separate selling price ~~may be~~^{is} charged. Therefore, each such service is treated as a separate item.

~~32.37.~~ ~~Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made as to the amount the inventories are expected to realize. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.~~

~~33.38.~~ Estimates of net realizable value also take into consideration the purpose for which the inventory is held. For example, the net realizable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realizable value of the excess is based on general selling prices. Guidance on the treatment of provisions or contingent liabilities, such as those arising from firm sales contracts in excess of inventory quantities held, and on firm purchase contracts can be found in ~~IAS 37~~^{IPSAS 19}, "Provisions, Contingent Liabilities and Contingent Assets."

~~34.39.~~ Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold, exchanged or distributed at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products ~~will exceed~~^{exceeds} net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.

~~35.40.~~ A new assessment is made of net realizable value in each subsequent period. When the circumstances ~~which-that~~ previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. This occurs, for example, when an item of inventory, ~~which-that~~ is carried at net realizable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Distributing Goods at No Charge or for a Nominal Charge

~~36.41.~~ A public sector entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a government has determined to distribute certain goods at no charge or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph ~~44~~15.

Recognition as an Expense

~~37.42.~~ When inventories are sold, exchanged or distributed the carrying amount of those inventories ~~should-shall~~ be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when the goods are distributed or related service is rendered. The amount of any write-down of inventories and all losses of inventories ~~should-shall~~ be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories ~~should-shall~~ be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

~~38.43.~~ ~~The process of recognizing as an expense the carrying amount of inventories sold, exchanged or distributed results in the matching of costs and revenues.~~ For a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

~~39.44.~~ Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment.

Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

Disclosure

~~40.45.~~ The financial statements ~~should~~shall disclose:

- (a) The accounting policies adopted in measuring inventories, including the cost formula used;
- (b) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- (c) the carrying amount of inventories carried at fair value less costs to sell;
- (d) the amount of inventories recognized as an expense during the period;
- (e) the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 42;
- ~~(e)(f)~~ The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period in accordance with paragraph ~~3742~~;
- ~~(d)(g)~~ The circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph ~~3742~~; and
- ~~(e)(h)~~ The carrying amount of inventories pledged as security for liabilities.

~~41.46.~~ Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods. The inventories of a service provider may ~~simply~~ be described as work in progress.

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

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

~~43.47.~~ The ~~cost~~amount of inventories recognized as an expense during the period consists of those costs previously included in the measurement of ~~the items of~~ inventory that has now been sold, exchanged or distributed, and unallocated production overheads and abnormal amounts of production

costs of inventories. The circumstances of the entity may also warrant the inclusion of other costs, such as distribution costs.

~~44.48.~~ Some entities adopt a ~~different~~ format for ~~the statement of financial performance surplus or deficit that, which~~ results in ~~different~~ amounts being disclosed ~~instead of other than~~ the cost of inventories recognized as an expense during the period. Under this ~~different~~ format, an entity ~~discloses presents an analysis of expenses using a classification based on the nature of expenses, the amounts of operating costs applicable to revenues for the period, classified by their nature.~~ In this case, the entity discloses the costs recognized as an expense for raw materials and consumables, labor costs and other ~~operating~~ costs together with the amount of the net change in inventories for the period.

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

Effective Date

~~46.49.~~ This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after ~~July 1, 2002~~ January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.

~~47.50.~~ 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 12 (2001)

51. This Standard supersedes IPSAS 12, "Inventories" issued in 2001.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

- BC1.** The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2.** Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.
- BC3.** In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)¹ as part of its General Improvements Project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.
- BC4.** IPSAS 12, issued in July 2001 was based on IAS 2 (Revised 1993), "Inventories" which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)², actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

¹ The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

² The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

- BC5. The IPSASB reviewed the improved IAS 2 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).
- BC6. IAS 2 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 12 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

Table of Concordance

This table shows how the contents of the superseded version of IPSAS 12 and the current version of IPSAS 12 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

<u>Superseded IPSAS 12 paragraphs</u>	<u>Current IPSAS 12 paragraph</u>	<u>Superseded IPSAS 12 paragraphs</u>	<u>Current IPSAS 12 paragraph</u>
Objective	1	28	33
<u>1</u>	<u>2</u>	<u>29</u>	<u>34</u>
<u>2</u>	<u>4</u>	<u>30</u>	<u>35</u>
<u>3</u>	<u>5</u>	<u>31</u>	<u>36</u>
<u>4</u>	<u>7</u>	<u>32</u>	<u>37</u>
<u>5</u>	<u>6</u>	<u>33</u>	<u>38</u>
<u>6</u>	<u>9</u>	<u>34</u>	<u>39</u>
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<u>13</u>	<u>17</u>	<u>41</u>	<u>46</u>
<u>14</u>	<u>18</u>	<u>42</u>	<u>None</u>
<u>15</u>	<u>None</u>	<u>43</u>	<u>47</u>
<u>16</u>	<u>19</u>	<u>44</u>	<u>48</u>
<u>17</u>	<u>20</u>	<u>45</u>	<u>None</u>
<u>18</u>	<u>21</u>	<u>46</u>	<u>49</u>
<u>19</u>	<u>22</u>	<u>47</u>	<u>50</u>
<u>20</u>	<u>23</u>	<u>None</u>	<u>3</u>
<u>21</u>	<u>24</u>	<u>None</u>	<u>8</u>
<u>22</u>	<u>25</u>	<u>None</u>	<u>10</u>
<u>23</u>	<u>27</u>	<u>None</u>	<u>26</u>
<u>24</u>	<u>29</u>	<u>None</u>	<u>28</u>
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<u>27</u>	<u>32</u>		

Comparison with IAS 2

International Public Sector Accounting Standard (IPSAS) 12, “Inventories” is drawn primarily from International Accounting Standard (IAS) 2 (revised 1993), “Inventories.” The main differences between IPSAS 12 and IAS 2 are as follows:

- At the time of issuing this Standard, the Public Sector Committee has not considered the applicability of IAS 41, “Agriculture,” to public sector entities, therefore IPSAS 12 does not reflect amendments made to IAS 2 consequent upon the issuing of IAS 41.
- IPSAS 12 uses a different definition from IAS 2, the difference recognizes that in the public sector some inventories are distributed at no charge or for a nominal charge.
- IPSAS 12 clarifies that work-in-progress of services which are to be distributed for no or nominal consideration directly in return from the recipients are excluded from the scope of the Standard.
- A definition of “current replacement cost,” which is additional to the definitions in IAS 2, has been included in IPSAS 12.
- IPSAS 12 requires that where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost.

~~• IPSAS 12 does not allow the cost of inventories to be assigned using the last-in, first-out (LIFO) formula.~~

- Commentary additional to that in IAS 2 has been included in IPSAS 12 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 12 uses different terminology, in certain instances, from IAS 2. The most significant examples ~~are~~ is the use of the terms “~~entity,~~” “~~revenue,~~” and “statement of financial performance” in IPSAS 12. The equivalent terms in IAS 2 ~~are~~ “~~enterprise,~~” “~~income,~~” and is “income statement.”

• IPSAS 12 does not use the term “income”, which in IAS 2 has a broader meaning than the term “revenue”.

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Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all leases other than:

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

However, this Standard shall not be applied as the basis of measurement for:

- (a) property held by lessees that is accounted for as investment property (see International Public Sector Accounting Standard IPSAS 16, “Investment Property”)
- (b) investment property provided by lessors under operating leases (see IPSAS 16);
- (c) biological assets held by lessees under finance leases (see the relevant international or national accounting standard dealing with agriculture); or
- (d) biological assets provided by lessors under operating leases (see the relevant international or national accounting standard dealing with agriculture).

Definitions

[Add new paragraph 9]

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

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

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

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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.

Gross investment in the lease is the aggregate of:

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

Guaranteed residual value is:

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

The **inception of the lease** is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

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

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

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

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

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

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

- (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or

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- (b) **for a lessor, any residual value guaranteed to the lessor by:**
- (i) **the lessee;**
 - (ii) **a party related to the lessee; or**
 - (iii) **a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.**

However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Unearned finance revenue is the difference between:

- (a) **the gross investment in the lease, and**
- (b) **the net investment in the lease.**

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

Changes in Lease Payments between the Inception of the Lease and the Commencement of the Lease Term

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

Classification of Leases

[Add new paragraphs 17 and 20-24]

12. The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity, technological obsolescence or changes in value because of

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changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset's economic life and of gain from appreciation in value or realization of a residual value.

13. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

14. Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.

15. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- (e) the leased assets are of such a specialized nature that only the lessee can use them without major modifications; and
- (f) the leased assets cannot easily be replaced by another asset.

16. Other indicators that individually or in combination could also lead to a lease being classified as a finance lease are:

- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

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- (b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
 - (c) the lessee has the ability to continue the lease for a secondary period at a rent which is substantially lower than market rent.
17. The examples and indicators in paragraphs 15 and 16 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards.
18. Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs 12-17 if the changed terms had been in effect at the inception of the lease, the revised agreement is regarded as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.
19. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortized over the lease term in accordance with the pattern of benefits provided.
20. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, whether analyzed as one lease or as two leases, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 19. The buildings element is classified as a finance or operating lease in accordance with paragraphs 12-18.

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21. Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.
22. For a lease of land and buildings in which the amount that would initially be recognized for the land element, in accordance with paragraph 28, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs 12-18. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.
23. Separate measurement of the land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with IPSAS 16 and the fair value model is adopted. Detailed calculations are required for this assessment only if the classification of one or both elements is otherwise uncertain.
24. In accordance with IPSAS 16, it is possible for a lessee to classify a property interest held under an operating lease as an investment property. If it does, the property interest is accounted for as if it were a finance lease and, in addition, the fair value model is used for the asset recognized. The lessee shall continue to account for the lease as a finance lease, even if a subsequent event changes the nature of the lessee's property interest so that it is no longer classified as investment property. This will be the case if, for example, the lessee:
 - (a) occupies the property, which is then transferred to owner-occupied property at a deemed cost equal to its fair value at the date of change in use; or
 - (b) grants a sublease that transfers substantially all of the risks and rewards incidental to ownership of the interest to an unrelated third party. Such a sublease is accounted for by the lessee as a finance lease to the third party, although it may be accounted for as an operating lease by the third party.

Leases in the Financial Statements of Lessees

Finance Leases

Initial Recognition

28. **At the commencement of the lease term, lessees shall recognize assets acquired under finance leases as assets and the associated lease**

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obligations as liabilities in their statements of financial position. The assets and liabilities shall be recognized at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognized as an asset.

29. Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.
30. If such lease transactions are not reflected in the lessee's financial statements, the assets and liabilities of an entity are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recognized in the lessee's financial statements both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognized in the financial statements at the same amounts except for any initial direct costs of the lessee that are added to the amount recognized as an asset.

Subsequent Measurement

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

Leases in the Financial Statements of Lessors

Finance Leases

[Add new paragraph 50, delete paragraph 45]

Initial Recognition

50. Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general

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

Subsequent Measurement

55. **If artificially low rates of interest are quoted, any gains or losses on sale of assets shall be restricted to those ~~which-that~~ would apply if a market rate of interest were charged. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease shall be recognized as an expense when the gain or loss is recognized.**

Operating Leases

65. **Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease revenue.**

Transitional Provisions

[Add new paragraphs 83 and 84]

79. **All provisions of this Standard shall be applied from the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, except in relation to leased assets that have not been recognized as a result of transitional provisions under another International Public Sector Accounting Standard. The provisions of this Standard would not be required to apply to such assets until the transitional provision in the other International Public Sector Accounting Standard expires. In no case shall the existence of transitional provisions in other Standards preclude the full application of this Standard for a period exceeding five years after the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards.**
80. **Notwithstanding the existence of transitional provisions under another International Public Sector Accounting Standard, entities that are in the**

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process of adopting the accrual basis of accounting are encouraged to comply in full with the provisions of that other Standard as soon as possible.

81. **Subject to paragraph 83, retrospective application of this Standard by entities that have already adopted the accrual basis of accounting and that intend to comply with International Public Sector Accounting Standards as they are issued is encouraged but not required. If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor and shall be accounted for thereafter in accordance with the provisions of this Standard.**
82. Entities that have already adopted the accrual basis of accounting and that intend to comply with International Public Sector Accounting Standards as they are issued, may have pre-existing finance leases that have been recognized as assets and liabilities in the statement of financial position. Retrospective application of this Standard to existing finance leases is encouraged. Retrospective application could lead to the restatement of such assets and liabilities. Such assets and liabilities are required to be restated only if the Standard is applied retrospectively.
83. **An entity that has previously applied IPSAS 13 (2001) shall apply the amendments made by this Standard retrospectively for all leases that it has recognized in accordance with that Standard or, if IPSAS 13 (2001) was not applied retrospectively, for all leases entered into since it first applied that Standard and recognized in accordance with that Standard.**
84. Transitional provisions in IPSAS 13 (2001) provide entities with a period of up to five years to recognize all leases from the date of its first application. Entities that have previously applied IPSAS 13 (2001) may continue to take advantage of this five-year transitional period from the date of first application of IPSAS 13 (2001).

Effective Date

85. **An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after 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.**
86. 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.

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Withdrawal of IPSAS 13 (2001)

87. This Standard supersedes IPSAS 13, “Leases” issued in 2001.

IPSAS 13—LEASES

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 17 (revised ~~1997~~2003), “Leases” published by the International Accounting Standards ~~Committee~~Board (~~IASCIASB~~). ~~The International Accounting Standards Board (IASB) and International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace IASC. The International Accounting Standards (IASs) issued by IASC remain in force until they are amended or withdrawn by IASB.~~ Extracts from IAS 17 are reproduced in this publication of the International Public Sector ~~Committee~~ Accounting Standards Board of the International Federation of Accountants with the permission of IASB.

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December ~~2001~~2006**IPSAS 13—LEASES****CONTENTS**

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International Public Sector Accounting Standard 13, “Leases” (IPSAS 13) is set out in paragraphs 1-51. All the paragraphs have equal authority. IPSAS 13 should be read in the context of the Basis for Conclusion, and the “Preface to 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 13
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Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 13, “Leases”, replaces IPSAS 13, “Leases” (issued December 2001), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 13

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 13 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 13, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 17, “Leases” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 17 for a public sector specific reason; such variances are retained in this IPSAS 13 and are noted in the Comparison with IAS 17. Any changes to IAS 17 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 13.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 13 are described below.

Definitions

IN5. The Standard defines “initial direct costs” in paragraph 8 as “incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors”. Previously, IPSAS 13 did not contain this definition.

IN6. The Standard defines “commencement of the lease term” in paragraph 8 as “the date from which the lessee is entitled to exercise its right to use the leased asset”. It is distinguished from the inception of the lease, which is defined as “the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease”. The Standard clarifies that recognition takes place at the commencement of the lease term based on values measured at the inception of the lease. If the lease is adjusted for changes in the lessor’s costs between the inception of the lease and the commencement of the lease term, the effect of any such changes is deemed to have taken place at the inception (see paragraph 9).

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IN7. Previously, IPSAS 13 did not define “commencement of the lease” and implicitly assumed that commencement and inception were simultaneous.

Classification of Leases of Land and Building

IN8. The Standard requires in paragraph 20 that an entity consider the land and buildings elements separately when classifying a lease of land and buildings. Normally, the land element is classified as an operating lease unless the title passes to the lessee at the end of the lease term. The buildings element is classified as an operating or finance lease by applying the classification criteria in the Standard. The minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interests in the land and buildings elements of the lease.

IN9. Previously, IPSAS 13 was not explicit about how to classify a lease of land and buildings and how to allocate the lease payment between them.

Initial Direct Costs incurred by Lessors

IN10. The Standard requires lessors to include the initial direct costs incurred in negotiating a finance lease in the initial measurement of finance lease receivables. For operating leases, such initial direct costs are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease revenue. This treatment does not apply to manufacturer or trader lessors. Manufacturer or trader lessors recognize this type of costs as an expense when the gain or loss is recognized. (see paragraphs 50, 55 and 65)

IN11. Previously, IPSAS 13 contained a choice on how to account for such costs--they might be either charged as an expense as incurred or allocated over the lease term and the choice of treatment applied to both operating and finance leases.

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The standards, which have been set in bold 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, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

Scope

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

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

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

- (a) ~~Property held by Lessees of that is accounted for as investment property held under finance leases (see International Public Sector Accounting Standard IPSAS 16, “Investment Property”); or~~
- (b) ~~Investment property provided by Lessors of investment property leased out under operating leases (see International Public Sector Accounting Standard (IPSAS) 16, “Investment Property”);~~
- (c) biological assets held by lessees under finance leases (see the relevant international or national accounting standard dealing with agriculture); or
- (d) biological assets provided by lessors under operating leases (see the relevant international or national accounting standard dealing with agriculture).

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2.3. **This Standard applies to all public sector entities other than Government Business Enterprises.**

3.4. This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. ~~On the other hand, t~~This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other. Public sector entities may enter into complex arrangements for the delivery of services, which may or may not include leases of assets. These arrangements are discussed in paragraphs ~~17-25~~ to ~~1927~~.

4.5. This Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights, and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights. This is because these types of agreements have the potential to raise complex accounting issues which need to be addressed separately.

5.6. This Standard does not apply to investment property. Investment properties are measured by lessors and lessees in accordance with the provisions of IPSAS 16.

6.7. ~~The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements”. Government Business Enterprises (GBEs) are required to comply with 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

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

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of

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initial recognition of the lease (ie the recognition of the assets, liabilities, revenue or expenses resulting from the lease, as appropriate).

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

Economic life is either:

- (a) The period over which an asset is expected to yield economic benefits or service potential to one or more users; or
- (b) The number of production or similar units expected to be obtained from the asset by one or more users.

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.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Gross investment in the lease is the aggregate of:

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

Guaranteed residual value is:

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

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

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

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

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

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

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

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The lease term is the non-cancelable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, ~~which option when~~ at the inception of the lease it is reasonably certain that the lessee will exercise the option.

The lessee's incremental borrowing rate of interest is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

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

- (a) ~~In the case of the~~ For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
 - (b) ~~In the case of the~~ For a lessor, any residual value guaranteed to the lessor by ~~either~~:
- (i) The lessee;

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- (ii) A party related to the lessee; or
- (iii) An independent third party unrelated to the lessor that is financially capable of ~~meeting this~~ discharging the obligations under the guarantee.

However, if the lessee has an option to purchase the asset at a price ~~which that~~ is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, so that at the inception of the lease, that the option ~~is reasonably certain to will~~ be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise ~~it this purchase option~~.

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

A non-cancelable lease is a lease that is cancelable only:

- (a) Upon the occurrence of some remote contingency;
- (b) With the permission of the lessor;
- (c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- (d) Upon payment by the lessee of such an additional amount ~~such~~ that, at inception of the lease, continuation of the lease is reasonably certain.

An operating lease is a lease other than a finance lease.

Unearned finance revenue is the difference between:

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

Unguaranteed residual value is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

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

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.

Changes in Lease Payments between the Inception of the Lease and the Commencement of the Lease Term

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

Hire Purchase Contracts

8-10. The definition of a lease includes contracts for the hire of an asset which contain a provision giving the hirer an option to acquire title to the asset upon the fulfillment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

Incremental Borrowing Rate of Interest

9-11. Where an entity has borrowings which are guaranteed by the government, the determination of the lessee's incremental borrowing rate of interest should reflect the existence of any government guarantee and any related fees. This will normally lead to the use of a lower incremental borrowing rate of interest.

Classification of Leases

10-12. The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity, technological obsolescence or changes in value ~~due to~~ because of changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset's economic life and of gain from appreciation in value or realization of a residual value.

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~~11.13.~~ A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

~~12.14.~~ ~~Since~~ ~~Because~~ the transaction between a lessor and a lessee is based on a lease agreement ~~common to both parties~~ between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the ~~two parties~~ lessor and lessee may ~~sometimes~~ result in the same lease being classified differently by ~~lessor and lessee~~ them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.

~~13.15.~~ Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations ~~which that individually or in combination~~ would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

- (a) The lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) The lessee has the option to purchase the asset at a price ~~which that~~ is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, so that at the inception of the lease, ~~it is reasonably certain~~ that the option will be exercised;
- (c) The lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- (e) The leased assets are of such a specialized nature ~~such that~~ only the lessee can use them without major modifications ~~being made~~; and
- (f) The leased assets cannot easily be replaced by another asset.

~~14.16.~~ Other indicators ~~which that~~ individually or in combination could also lead to a lease being classified as a finance lease are:

- (a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

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- (b) Gains or losses from the fluctuation in the fair value of the residual ~~fall-accrue~~ to the lessee (for example in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- (c) The lessee has the ability to continue the lease for a secondary period at a rent ~~which-that~~ is substantially lower than market rent.

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

15-18. Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs ~~10-12~~ to ~~14-17~~ ~~had~~ ~~if~~ the changed terms ~~had~~ been in effect at the inception of the lease, the revised agreement is ~~considered-regarded~~ as a new agreement over its term. ~~Changes-However, changes~~ in estimates (for example, changes in estimates of the economic life or the residual value of the leased property) or changes in circumstances (for example, default by the lessee), ~~however,~~ do not give rise to a new classification of a lease for accounting purposes.

16-19. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A ~~premium paid for such payment made on entering into or acquiring~~ a leasehold that is accounted for as an operating lease represents pre-paid lease payments ~~which-that~~ are amortized over the lease term in accordance with the pattern of benefits provided.

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

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element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 19. The buildings element is classified as a finance or operating lease in accordance with paragraphs 12-18.

21. Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.
22. For a lease of land and buildings in which the amount that would initially be recognized for the land element, in accordance with paragraph 28, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs 12-18. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.
23. Separate measurement of the land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with IPSAS 16 and the fair value model is adopted. Detailed calculations are required for this assessment only if the classification of one or both elements is otherwise uncertain.
24. In accordance with IPSAS 16, it is possible for a lessee to classify a property interest held under an operating lease as an investment property. If it does, the property interest is accounted for as if it were a finance lease and, in addition, the fair value model is used for the asset recognized. The lessee shall continue to account for the lease as a finance lease, even if a subsequent event changes the nature of the lessee's property interest so that it is no longer classified as investment property. This will be the case if, for example, the lessee:
 - (a) occupies the property, which is then transferred to owner-occupied property at a deemed cost equal to its fair value at the date of change in use; or
 - (b) grants a sublease that transfers substantially all of the risks and rewards incidental to ownership of the interest to an unrelated third party. Such a sublease is accounted for by the lessee as a finance

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lease to the third party, although it may be accounted for as an operating lease by the third party.

Leases and Other Contracts

17.25. A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate and/or transfer assets. Public sector entities often enter into such agreements, particularly in relation to long-lived physical assets and infrastructure assets. For example, a public sector entity may construct a tollway. It may then lease the tollway to a private sector entity as part of an arrangement whereby the private sector entity agrees to:

- (a) Lease the tollway for an extended period of time (with or without an option to purchase the facility);
- (b) Operate the tollway; and
- (c) Fulfill extensive maintenance requirements, including regular upgrading of both the road surface and the traffic control technology.

Other agreements may involve a public sector entity leasing infrastructure from the private sector.

18.26. Where an arrangement contains an identifiable operating lease or finance lease as defined in this Standard, the provisions of this Standard should be applied in accounting for the lease component of the arrangement.

19.27. Public sector entities may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether or not a lease, as defined by this Standard, has arisen. In these cases, professional judgment is exercised, and if a lease has arisen this standard is applied; and if a lease has not arisen entities account for those agreements by applying the provisions of other relevant International Public Sector Accounting Standards, or in the absence thereof, other relevant international and/or national accounting standards.

Leases in the Financial Statements of Lessees

Finance Leases

20.28. **At the commencement of the lease term Lessees-lessees should shall recognize assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position. The assets and liabilities should-shall be recognized at**

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amounts equal ~~at the inception of the lease~~ to the fair value of the leased property or, if lower, ~~at the present value of the minimum lease payments, each determined at the inception of the lease.~~ ~~In calculating the present value of the minimum lease payments t~~ The discount factor rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate ~~should~~ shall be used.

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

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

23.31. It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets.

24.32. If for the presentation of liabilities on the face of the statement of financial position a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.

25.33. Initial direct costs are often incurred in connection with specific leasing activities, such as ~~in~~ negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are ~~included as part of~~ added to the amount recognized as an asset ~~under the lease.~~

26.34. Minimum Lease ~~lease~~ payments ~~should~~ shall be apportioned between the finance charge and the reduction of the outstanding liability. The

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finance charge ~~should~~**shall** be allocated to ~~each period~~**s** during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability ~~for each period~~**. Contingent rents shall be charged as expenses in which they are incurred.**

27.35. In practice, in allocating the finance charge to periods during the lease term, ~~a lessee may use~~ some form of approximation ~~may be used~~ to simplify the calculation.

28.36. A finance lease gives rise to a depreciation expense for depreciable assets as well as a finance expense for each accounting period. The depreciation policy for depreciable leased assets ~~should~~**shall** be consistent with that for depreciable assets ~~which~~**that** are owned, and the depreciation recognized ~~should~~**shall** be calculated ~~on the basis set out in~~**in accordance with** International Public Sector Accounting Standard (IPSAS) 17, "Property, Plant and Equipment" and any international and/or national accounting standard on intangible assets which has been adopted by the entity. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset ~~should~~**shall** be fully depreciated over the shorter of the lease term or its useful life.

29.37. The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term or its useful life.

30.38. The sum of the depreciation expense for the asset and the finance expense for the period is rarely the same as the lease payments payable for the period, and it is therefore inappropriate simply to recognize the lease payments payable as an expense ~~in the statement of financial performance~~**. Accordingly, the asset and the related liability are unlikely to be equal in amount after the ~~inception~~**commencement** of the lease ~~term~~**.****

31.39. To determine whether a leased asset has become impaired an entity applies relevant impairment tests in international and/or national accounting standards.

32.40. Lessees ~~should~~**shall make disclose** the following ~~disclosures~~**for finance leases:**

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- (a) For each class of asset, the net carrying amount at the reporting date;
- (b) A reconciliation between the total of **future** minimum lease payments at the reporting date, and their present value.
- (c) In addition, an entity ~~should~~**shall** disclose the total of **future** minimum lease payments at the reporting date, and their present value, for each of the following periods:
 - (i) Not later than one year;
 - (ii) Later than one year and not later than five years; and
 - (iii) Later than five years;
- (d) Contingent rents recognized ~~as an expense in the statement of financial performance for the period;~~
- (e) The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date; and
- (f) A general description of the lessee's ~~significant material~~ leasing arrangements including, but not limited to, the following:
 - (i) The basis on which contingent rent ~~payments are payable~~ **is** determined;
 - (ii) The existence and terms of renewal or purchase options and escalation clauses; and
 - (iii) Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt and further leasing.

~~33.41.~~ In addition, the ~~requirements for~~ disclosure ~~requirements of in accordance with~~ IPSAS 16, IPSAS 17, IPSAS 21 and any international and/or national accounting standard on intangible assets and on impairment of ~~cash-generating~~ assets which have been adopted by the entity should be applied to the amounts of leased assets under finance leases that are accounted for by the lessee as acquisitions of assets.

Operating Leases

~~34.42.~~ Lease payments under an operating lease ~~should~~**shall** be recognized as an expense ~~in the statement of financial performance on a straight line basis over the lease term unless another systematic basis is representative of the time pattern of the user's benefit.~~

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35.43. For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognized as an expense ~~in the statement of financial performance~~ on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

36.44. Lessees ~~should shall make disclose~~ the ~~following~~ disclosures for operating leases:

- (a) The total of future minimum lease payments under non-cancelable operating leases for each of the following periods:
 - (i) Not later than one year;
 - (ii) Later than one year and not later than five years; and
 - (iii) Later than five years;
- (b) The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date;
- (c) Lease and sublease payments recognized as an expense in the ~~statement of financial performance for the~~ period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and
- (d) A general description of the lessee's significant leasing arrangements including, but not limited to, the following:
 - (i) The basis on which contingent rent payments are determined;
 - (ii) The existence and terms of renewal or purchase options and escalation clauses; and
 - (iii) Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt, and further leasing.

Leases in the Financial Statements of Lessors

Finance Leases

37.45. This Standard describes the treatment of finance revenue earned under finance leases. The term "manufacturer or trader lessor" is used in this Standard to refer to all public sector entities that manufacture or trade assets and also act as lessors of those assets, regardless of the scale of their leasing, trading and manufacturing activities. With respect to an entity that is a manufacturer or trader lessor, the Standard also describes the treatment of gains or losses arising from the transfer of assets.

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38.46. Public sector entities may enter into finance leases as a lessor under a variety of circumstances. Some public sector entities may trade assets on a regular basis. For example, governments may create special purpose entities that are responsible for the central procurement of assets and supplies for all other entities. Centralization of the purchasing function may provide greater opportunity to obtain trade discounts or other favorable conditions. In some jurisdictions, a central purchasing entity may purchase items on behalf of other entities, with all transactions being conducted in the name of the other entities. In other jurisdictions, a central purchasing entity may purchase items in its own name and its functions may include:

- (a) Procuring assets and supplies;
- (b) Transferring assets by way of sale or finance lease; and/or
- (c) Managing a portfolio of assets, such as a motor vehicle fleet, for use by other entities and making those assets available for short or long-term lease, or purchase.

39.47. Other public sector entities may enter into lease transactions on a more limited scale and at less frequent intervals. In particular, in some jurisdictions public sector entities which have traditionally owned and operated infrastructure assets such as roads, dams, and water treatment plants are no longer automatically assuming complete ownership and operational responsibility for these assets. Public sector entities may transfer existing infrastructure assets to private sector entities by way of sale or by way of finance lease. In addition, public sector entities may construct new long-lived physical and infrastructure assets in partnership with private sector entities with the intention that the private sector entity will assume responsibility for the assets by way of outright purchase or by way of finance lease once they are completed. In some cases, the arrangement provides for a period of control by the private sector before reversion of title and control of the asset to the public sector — for example, a local government may build a hospital and lease the facility to a private sector company for a period of twenty years, after which time the facility reverts to public control.

40.48. Lessors ~~should~~**shall** recognize lease payments receivable under a finance lease as assets in their statements of financial position. They ~~should~~**shall** present such assets as a receivable at an amount equal to the net investment in the lease.

41.49. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance revenue to reimburse and reward the lessor for its investment and services.

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Initial Recognition

50. Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or trader lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are recognized as an expense when the gain or loss on sale is recognized, which for a finance lease is normally at the commencement of the lease term.
- 42.51. The recognition of finance revenue ~~should~~ **shall** be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment ~~outstanding in respect of~~ the finance lease.
- 43.52. A lessor aims to allocate finance revenue over the lease term on a systematic and rational basis. This revenue allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment ~~outstanding in respect of~~ the finance lease. Lease payments relating to the accounting period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance revenue.
- 44.53. Estimated unguaranteed residual values used in computing the lessor's gross investment in a lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the revenue allocation over the lease term is revised and any reduction in respect of amounts already accrued is recognized immediately.
- ~~45. Initial direct costs, such as commissions and legal fees, are often incurred by lessors in negotiating and arranging a lease. For finance leases, these initial direct costs are incurred to produce finance revenue and are either recognized immediately as an expense or allocated against revenue over the lease term.~~

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~~46.54.~~ Manufacturer or trader lessors ~~should shall~~ recognize gains or losses on sale of assets in ~~the statement of financial performance for~~ the period, in accordance with the policy followed by the entity for outright sales.

~~47.55.~~ If artificially low rates of interest are quoted, any gains or losses on sale of assets ~~should shall~~ be restricted to ~~those that~~ which would apply if a ~~commercial market~~ rate of interest were charged. ~~Initial direct costs~~ Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease should shall be recognized as an expense ~~in the statement of financial performance at the inception of the lease when the gain or loss is recognized.~~

~~48.56.~~ Public sector entities which manufacture or trade assets may offer to potential purchasers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or trader lessor gives rise to two types of revenue:

- (a) The gain or loss equivalent to the gain or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and
- (b) The finance revenue over the lease term.

~~49.57.~~ The sales revenue ~~recorded recognized~~ at the commencement of ~~a finance~~ the lease term by a manufacturer or trader lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a commercial rate of interest. The cost of sale of an asset recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the gain or loss on sale which is recognized in accordance with the ~~policy followed by the entity's policy~~ for outright sales of assets.

~~50.58.~~ Manufacturer or trader lessors may sometimes offer customers lower rates of interest than their normal lending rates. The use of such a rate would result in an excessive portion of the total revenue from the transaction being recognized at the time of sale. If artificially low rates of interest are quoted, revenue recognized as gain or loss on sale ~~would be is~~ restricted to that which would apply if the entity's normal lending rate for that type of transaction were charged.

~~51.59.~~ Initial direct costs are recognized as an expense at the commencement of the lease term because they are mainly related to earning the manufacturer's or trader's gain or loss on sale.

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~~52-60.~~ Lessors ~~should-shall make~~disclose the following ~~disclosures~~ for finance leases:

- (a) A reconciliation between the total gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity ~~should-shall~~ disclose the ~~total~~ gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:
 - (i) Not later than one year;
 - (ii) Later than one year and not later than five years; and
 - (iii) Later than five years;
- (b) Unearned finance revenue;
- (c) The unguaranteed residual values accruing to the benefit of the lessor;
- (d) The accumulated allowance for uncollectible minimum lease payments receivable;
- (e) Contingent rents recognized in the statement of financial performance; and
- (f) A general description of the lessor's ~~significant-material~~ leasing arrangements.

~~53-61.~~ As an indicator of growth in leasing activities it is often useful to also disclose the gross investment less unearned revenue in new business added during the accounting period, after deducting the relevant amounts for canceled leases.

Operating Leases

~~54-62.~~ Lessors ~~should-shall~~ present assets subject to operating leases in their statements of financial position according to the nature of the asset.

~~55-63.~~ Lease revenue from operating leases ~~should-shall~~ be recognized as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished.

~~56-64.~~ Costs, including depreciation, incurred in earning the lease revenue are recognized as an expense. Lease revenue (excluding receipts for services provided such as insurance and maintenance) is recognized as revenue on a straight line basis over the lease term even if the receipts are not on such a

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basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

~~57-65.~~ Initial direct costs incurred ~~by lessors in negotiating and arranging specifically to earn revenues from an operating lease are either deferred shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term in proportion to the recognition of rent revenue, or recognized as an expense in the statement of financial performance in the period in which they are incurred on the same basis as the lease revenue.~~

~~58-66.~~ The depreciation ~~of policy for~~ depreciable leased assets ~~should shall be on a basis~~ consistent with the lessor's normal depreciation policy for similar assets, and ~~the depreciation charge should shall be calculated on the basis set out in~~ accordance with IPSAS 17, and any international and/or national accounting standard on intangible assets ~~which that~~ has been adopted by the entity.

~~59-67.~~ To determine whether a leased asset has become impaired, an entity applies relevant impairment tests in international and/or national accounting standards.

~~60-68.~~ A manufacturer or trader lessor does not recognize any gain on sale on entering into an operating lease because it is not the equivalent of a sale.

~~61-69.~~ Lessors ~~should shall make disclose~~ the following ~~disclosures for~~ operating leases:

- (a) The future minimum lease payments under non-cancelable operating leases in the aggregate and for each of the following periods:
 - (i) Not later than one year;
 - (ii) Later than one year and not later than five years; and
 - (iii) Later than five years;
- (b) Total contingent rents recognized in the statement of financial performance in the period; and
- (c) A general description of the lessor's ~~significant~~ leasing arrangements.

Sale and Leaseback Transactions

~~62-70.~~ A sale and leaseback transaction involves the sale of an asset ~~by the vendor~~ and the leasing back of the same asset ~~back to the vendor~~. The lease

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payment and the sale price are usually interdependent ~~as-because~~ they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

63-71. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount ~~should-shall~~ not be immediately recognized as revenue ~~in the financial statements of by a seller-lessee~~. Instead, it ~~should-shall~~ be deferred and amortized over the lease term.

64-72. If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason it is not appropriate to regard an excess of sales proceeds over the carrying amount as revenue. Such excess is deferred and amortized over the lease term.

65-73. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any gain or loss ~~should-shall~~ be recognized immediately. If the sale price is below fair value, any gain or loss ~~should-shall~~ be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it ~~should-shall~~ be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value ~~should-shall~~ be deferred and amortized over the period for which the asset is expected to be used.

66-74. If the leaseback is an operating lease, and the lease payments and the sale price are ~~established~~ at fair value, there has in effect been a normal sale transaction and any gain or loss is recognized immediately.

67-75. For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value ~~should-shall~~ be recognized immediately.

68-76. For finance leases, no such adjustment is necessary unless there has been an impairment in value and that impairment is required to be recognized by any international and/or national accounting standard on impairment which has been adopted by the entity.

69-77. Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of the ~~significant-material~~

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leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

~~70.78.~~ Sale and leaseback transactions may be required to be separately disclosed in accordance with IPSAS 31, ~~“Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies Presentation of Financial Statements.”~~

Transitional Provisions

~~71.79.~~ All provisions of this Standard ~~should~~shall be applied from the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, except in relation to leased assets which have not been recognized as a result of transitional provisions under another International Public Sector Accounting Standard. The provisions of this Standard would not be required to apply to such assets until the transitional provision in the other International Public Sector Accounting Standard expires. In no case ~~should~~shall the existence of transitional provisions in other Standards preclude the full application of ~~this Standard for a period exceeding five years after the date of first adoption of this Standard~~accrual accounting in accordance with International Public Sector Accounting Standards.

~~72.80.~~ Notwithstanding the existence of transitional provisions under another International Public Sector Accounting Standard, entities that are in the process of adopting the accrual basis of accounting are encouraged to comply in full with the provisions of that other Standard as soon as possible.

~~73.81.~~ Subject to paragraph 83, Retrospective-retrospective application of this Standard by entities that have already adopted the accrual basis of accounting and ~~which~~that intend to comply with International Public Sector Accounting Standards as they are issued is encouraged but not required. If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor and ~~should~~shall be accounted for thereafter in accordance with the provisions of this Standard.

~~74.82.~~ Entities that have already adopted the accrual basis of accounting and ~~which~~that intend to comply with International Public Sector Accounting Standards as they are issued, may have pre-existing finance leases ~~which~~that have been recognized as assets and liabilities in the statement of financial position. Retrospective application of this Standard to existing finance leases is encouraged. Retrospective application could lead to the

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restatement of such assets and liabilities. Such assets and liabilities are required to be restated only if the Standard is applied retrospectively.

83. An entity that has previously applied IPSAS 13 (2001) shall apply the amendments made by this Standard retrospectively for all leases that it has recognized in accordance with that Standard or, if IPSAS 13 (2001) was not applied retrospectively, for all leases entered into since it first applied that Standard and recognized in accordance with that Standard.

84. Transitional provisions in IPSAS 13 (2001) provide entities with a period of up to five years to recognize all leases from the date of its first application. Entities that have previously applied IPSAS 13 (2001) may continue to take advantage of this five-year transitional period from the date of first application of IPSAS 13 (2001).

Effective Date

75-85. an entity shall apply ~~This~~ ~~this~~ International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after January 1, ~~2003~~2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.

76-86. 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 13 (2001)

87. This Standard supersedes IPSAS 13, "Leases" issued in 2001.

Appendix Implementation Guidance 1—Classification of a Lease

This guidance accompanies, but is not part of, IPSAS 13.

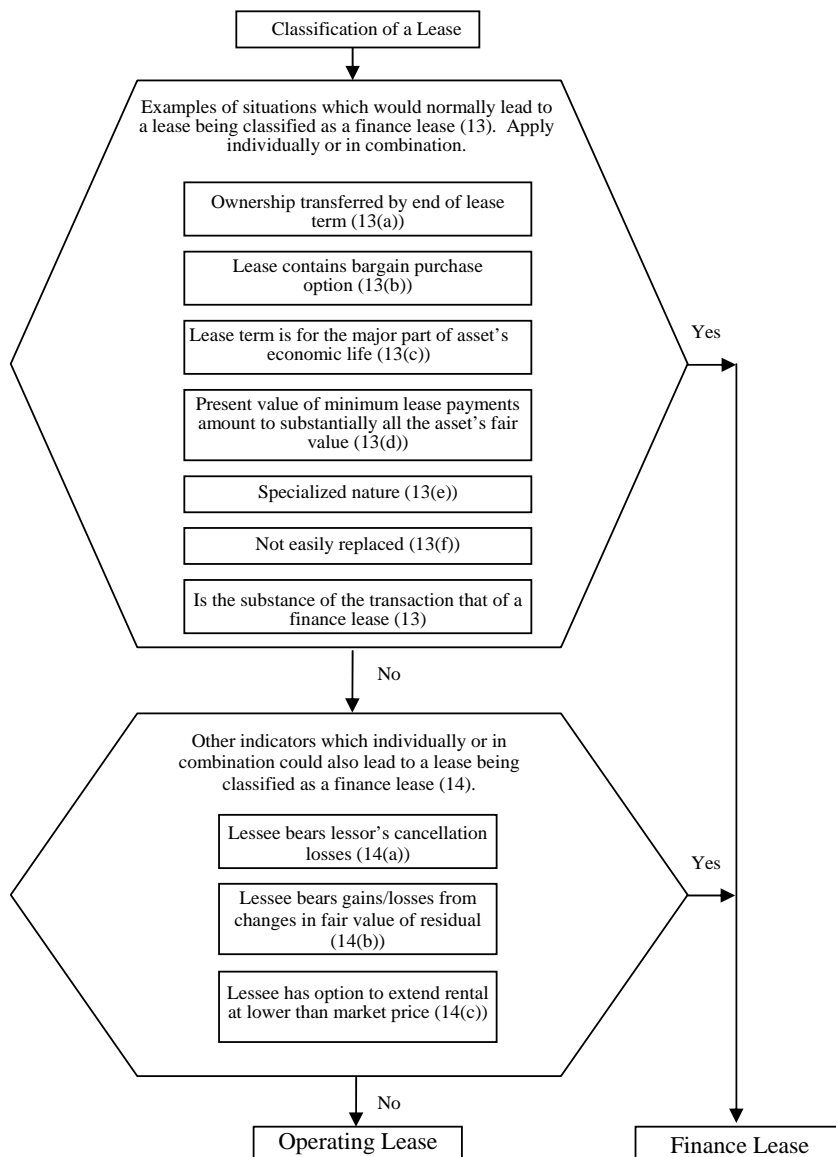
The appendix is illustrative only and does not form part of the standards, it should however be interpreted in the context of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

The objective of the chart on the next page is to assist in classifying a lease as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

The examples contained in this chart do not necessarily reflect all possible situations in which a lease may be classified as a finance lease, nor should a lease necessarily be classified as a finance lease by virtue of the route followed in this chart. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract (paragraph 13).

In the flowchart, the numbers in parentheses refer to paragraph numbers in the Standard.

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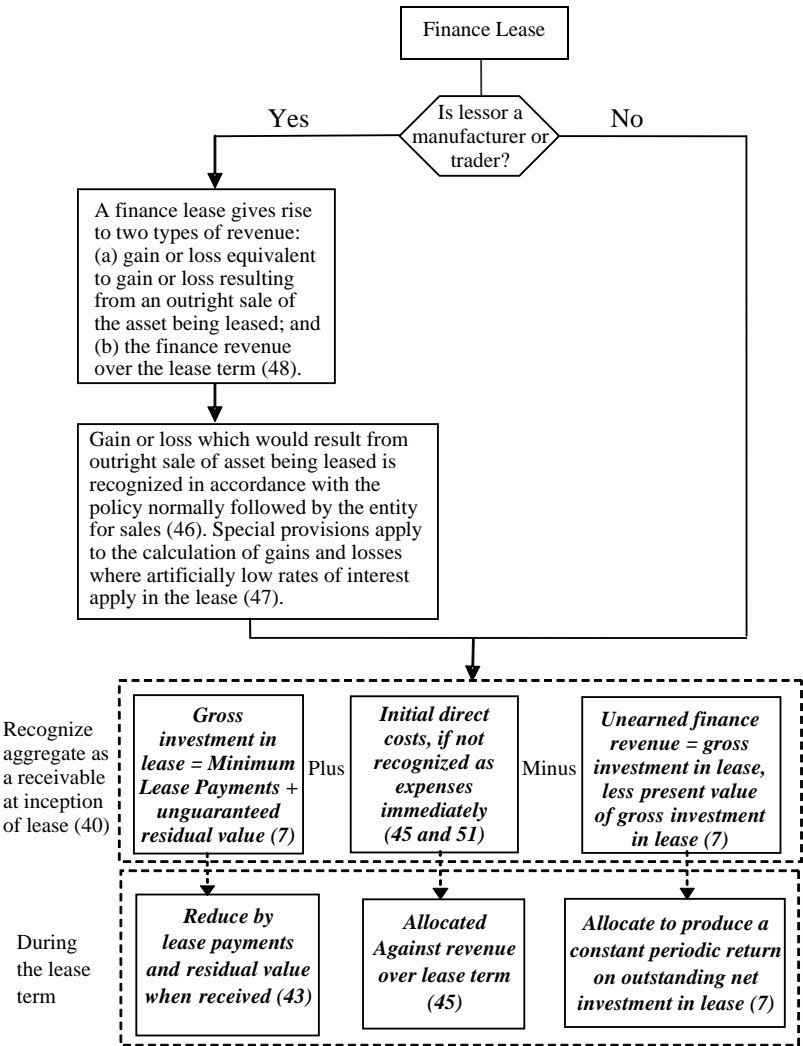


Implementation Guidance Appendix 2—Accounting for a Finance Lease by a Lessor

This guidance accompanies, but is not part of, IPSAS 13.

The appendix is illustrative only and does not form part of the standards, it should however be interpreted in the context of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

In the flowchart, the numbers in parentheses refer to paragraph numbers in the Standard.



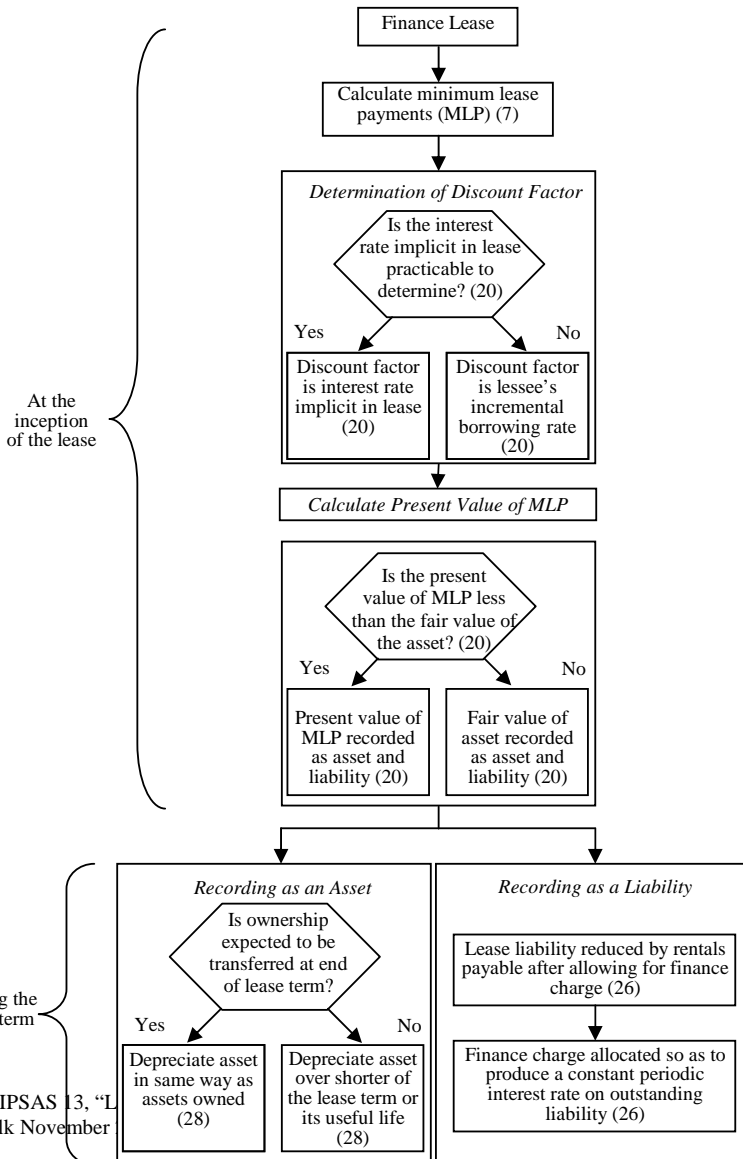
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Implementation Guidance Appendix 3—Accounting for a Finance Lease by a Lessee

This guidance accompanies, but is not part of, IPSAS 13.

The appendix is illustrative only and does not form part of the standards, it should however be interpreted in the context of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

In the flowchart, the numbers in parentheses refer to paragraph numbers in the Standard.



Implementation Guidance Appendix 4—Sale and Leaseback Transactions that Result in Operating Leases

This guidance accompanies, but is not part of, IPSAS 13.

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

A sale and leaseback transaction that results in an operating lease may give rise to a gain or a loss, the determination and treatment of which depends upon the leased asset's carrying amount, fair value and selling price. The table on the following page shows the requirements of the Standard in various circumstances.

Sale price established at fair value (paragraph 65)	Carrying amount equal to fair value	Carrying amount less than fair value	Carrying amount above fair value
Gain	no gain	recognize gain immediately	no gain
Loss	no loss	no loss	recognize loss immediately
Sale price below fair value (paragraph 65)	Carrying amount equal to fair value	Carrying amount less than fair value	Carrying amount above fair value
Gain	no gain	recognize gain immediately	no gain (note 1)
Loss <u>not</u> compensated by future lease payments at below market price	recognize loss immediately	recognize loss immediately	(note 1)
Loss compensated by future lease payments at below market price	defer and amortize loss	defer and amortize loss	(note 1)
Sale price above fair value (paragraph 65)	Carrying amount equal to fair value	Carrying amount less than fair value	Carrying amount above fair value
Gain	defer and amortize gain	defer and amortize gain (note 2)	defer and amortize gain (note 3)

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Loss	no loss	no loss	(note 1)
-------------	---------	---------	----------

Note 1 These parts of the table represent circumstances that would have been dealt with under paragraph 67 of the Standard. Paragraph 67 requires the carrying amount of an asset to be written down to fair value where it is subject to a sale and leaseback.

Note 2 If the sale price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used (paragraph 65).

Note 3 The gain would be the difference between fair value and sale price as the carrying amount would have been written down to fair value in accordance with paragraph 67.

Implementation Guidance ~~Appendix~~ 5—Calculating the Interest Rate Implicit in a Finance Lease

This guidance accompanies, but is not part of, IPSAS 13.

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

The Standard (paragraph 20) requires the lessees of assets acquired under finance leases to calculate the interest rate implicit in a lease, where practical. Paragraph 26 requires the lessees to apportion lease payments between the finance charge and the reduction of the outstanding liability using the interest rate implicit in the lease. Many lease agreements explicitly identify the interest rate implicit in the lease, but some do not. If a lease agreement does not identify the interest rate implicit in the lease the lessee needs to calculate the rate, using the present value formula. Financial calculators and spreadsheets will automatically calculate the interest rate implicit in a lease. Where these are not available, entities can use the present value formula to manually calculate the rate. This appendix illustrates the following two common methods for calculating the interest rate: trial and error, and interpolation. Both methods use the present value formula to derive the interest rate.

Derivations of present value formulas are widely available in accounting and finance textbooks. The present value (PV) of minimum lease payments (MLP) is calculated by means of the following formula:

$$PV(MLP) = \frac{S}{(1+r)^n} + \frac{A}{r} \left[1 - \frac{1}{(1+r)^n} \right]$$

Where:

“S” is the guaranteed residual value

“A” is the regular periodical payment

“r” is the periodic interest rate implicit in the lease expressed as a decimal

“n” is the number of periods in the term of the lease

Example

Department X enters into an agreement to acquire a motor vehicle on a finance lease. The fair value of the motor vehicle at the inception of the lease is 25,000 currency units, the annual lease payments are 5,429 currency units payable in arrears, the lease term is four years, and the guaranteed residual value is 10,000 currency units. The lease agreement does not provide any services additional to the supply of the motor vehicle. Department X is responsible for all the running costs of the vehicle

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including insurance, fuel and maintenance. The lease agreement does not specify the interest rate implicit in the lease. The Department's incremental borrowing rate is 7% per annum. Several financial institutions are advertising loans secured by motor vehicles at rates varying between 7.5% and 10%.

Trial and Error Method

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

The Department X would begin calculations using a best estimate — for example its incremental borrowing rate of 7% per annum, which is too low. It would then use the maximum feasible rate — for example the 10% per annum rate offered for loans secured by a motor vehicle, which would prove too high. After several calculations it would arrive at the correct rate of 8.5% per annum.

To calculate the interest rate the Department uses the PV(MLP) formula above, where:

$S = 10,000$ $n = 4$ $r =$ Annual interest rate expressed as a decimal

$A = 5,429$ Target PV(MLP) = 25,000

At Department X's incremental borrowing rate of 7% (0.07) per annum (figures are rounded):

$$\begin{aligned} \text{PV(MLP)} &= \frac{10,000}{(1 + 0.07)^4} + \frac{5,429}{0.07} \left[1 - \frac{1}{(1 + 0.07)^4} \right] \\ &= 7,629 + 18,390 \\ &= 26,019 \end{aligned}$$

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The PV(MLP) using the incremental borrowing rate is greater than the fair value of the leased asset, therefore a higher rate is implicit in the lease. The Department must make calculations at other rates to determine the actual rate (figures are rounded):

PV(MLP) at 7.5%	= 25,673	Interest rate too low
PV(MLP) at 10%	= 24,040	Interest rate too high
PV(MLP) at 9%	= 24,674	Interest rate too high
PV(MLP) at 8%	= 25,333	Interest rate too low
PV(MLP) at 8.5%	= 25,000	Correct interest rate

The Department will now use the interest rate of 8.5% to apportion the lease payments between the finance charge and the reduction of the lease liability, as shown in the table below.

Interpolation Method

Calculating the interest rate implicit in a lease requires lessees to initially calculate the present value for an interest rate that is too high, and one that is too low. The differences (in absolute terms) between the results obtained and the actual net present value are used to interpolate the correct interest rate. Using the data provided above, and the results for 7% and 10%, the actual rate can be interpolated as follows (figures are rounded):

PV at 7% = 26,019, difference = 1,019 (i.e., 26,019 – 25,000)

PV at 10% = 24,040, difference = 960 (i.e., 24,040 – 25,000)

$$r = 7\% + (10\% - 7\%) \frac{1,019}{(1,019 + 960)}$$

$$= 7\% + (3\% \times 0.5)$$

$$= 7\% + 1.5\%$$

$$= 8.5\%$$

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The Department X will now use the interest rate of 8.5% to record the lease in its books and apportion the lease payments between the finance charge and the reduction of the lease liability, as shown in the table below.

Apportionment of Lease Payment (figures are rounded)

	Year 0	Year 1	Year 2	Year 3	Year 4
Opening PV of Lease Liability	25,000	25,000	21,696	18,110	14,221
Interest Expense	-	2,125	1,844	1,539	1,209
Reduction of Liability	-	3,304	3,585	3,890	14,221*
Closing Lease Liability	25,000	21,696	18,110	14,221	-

* Includes payment of guaranteed residual value.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

- BC1.** The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2.** Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.
- BC3.** In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)¹ as part of its General Improvements Project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.
- BC4.** IPSAS 13, issued in December 2001 was based on IAS 17 (Revised 1997), "Leases" which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)², actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

¹ The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

² The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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- BC5. The IPSASB reviewed the improved IAS 17 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).
- BC6. IAS 17 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 12 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

Table of Concordance

This table shows how the contents of the superseded version of IPSAS 12 and the current version of IPSAS 12 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

<u>Superseded IPSAS 12 paragraphs</u>	<u>Current IPSAS 12 paragraph</u>	<u>Superseded IPSAS 12 paragraphs</u>	<u>Current IPSAS 12 paragraph</u>
Objective	1	28	33
<u>1</u>	<u>2</u>	<u>29</u>	<u>34</u>
<u>2</u>	<u>4</u>	<u>30</u>	<u>35</u>
<u>3</u>	<u>5</u>	<u>31</u>	<u>36</u>
<u>4</u>	<u>7</u>	<u>32</u>	<u>37</u>
<u>5</u>	<u>6</u>	<u>33</u>	<u>38</u>
<u>6</u>	<u>9</u>	<u>34</u>	<u>39</u>
<u>7</u>	<u>11</u>	<u>35</u>	<u>40</u>
<u>8</u>	<u>12</u>	<u>36</u>	<u>41</u>
<u>9</u>	<u>13</u>	<u>37</u>	<u>42</u>
<u>10</u>	<u>14</u>	<u>38</u>	<u>43</u>
<u>11</u>	<u>15</u>	<u>39</u>	<u>44</u>
<u>12</u>	<u>16</u>	<u>40</u>	<u>45</u>
<u>13</u>	<u>17</u>	<u>41</u>	<u>46</u>
<u>14</u>	<u>18</u>	<u>42</u>	<u>None</u>
<u>15</u>	<u>None</u>	<u>43</u>	<u>47</u>
<u>16</u>	<u>19</u>	<u>44</u>	<u>48</u>
<u>17</u>	<u>20</u>	<u>45</u>	<u>None</u>
<u>18</u>	<u>21</u>	<u>46</u>	<u>49</u>
<u>19</u>	<u>22</u>	<u>47</u>	<u>50</u>
<u>20</u>	<u>23</u>	<u>None</u>	<u>3</u>
<u>21</u>	<u>24</u>	<u>None</u>	<u>8</u>
<u>22</u>	<u>25</u>	<u>None</u>	<u>10</u>
<u>23</u>	<u>27</u>	<u>None</u>	<u>26</u>
<u>24</u>	<u>29</u>	<u>None</u>	<u>28</u>
<u>25</u>	<u>30</u>	<u>None</u>	<u>51</u>
<u>26</u>	<u>31</u>		
<u>27</u>	<u>32</u>		

Comparison with IAS 17

International Public Sector Accounting Standard (IPSAS) 13, “Leases” is drawn primarily from International Accounting Standard (IAS) 17, (revised ~~1997~~2003), “Leases.” The main differences between IPSAS 13 and IAS 17 are as follows:

- At the time of issuing this Standard, the ~~PSC-IPSASB~~ has not considered the applicability of International Accounting Standard (IAS) 41, “Agriculture,” to public sector entities, therefore IPSAS 13 does not reflect amendments made to IAS 17 consequent upon the issuing of IAS 41.
- Commentary additional to that in IAS 17 has been included in IPSAS 13 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 13 uses different terminology, in certain instances, from IAS 17. The most significant examples are the use of the terms ~~“entity,” “revenue,”~~ “statement of financial performance” and “statement of financial position” in IPSAS 13. The equivalent terms in IAS 17 are ~~“enterprise,” “income,”~~ “income statement” and “balance sheet.”
- IPSAS 13 does not use the term “income”, which in IAS 17 has a broader meaning than the term “revenue”.
- IAS 17 includes a definition of “fair value” in its set of definitions of technical terms, IPSAS 13 does not include this definition, as it is included in the “Glossary of Defined Terms” published separately (paragraph 7).
- IPSAS 13 has additional ~~appendices-implementation guidance~~ which illustrate the classification of a lease, the treatment of a finance lease by a lessee, the treatment of a finance lease by a lessor, and the calculation of the interest rate implicit in a finance lease.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 14—EVENTS AFTER THE REPORTING DATE

Recognition and Measurement

Adjusting Events After the Reporting Date

11. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:
 - (a) the settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts any previously recognized provision related to this court case in accordance with IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets” or recognizes a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 24 in IPSAS 19.

.....Dividends~~/or Similar~~ Distributions

14. **If an entity declares dividends or similar distributions after the reporting date, the entity shall not recognize those distributions as a liability at the reporting date.**
15. Dividends may arise in the public sector when, for example, a public sector entity controls and consolidates the financial statements of a GBE that has outside ownership interests to whom it pays dividends. In addition, some public sector entities adopt a financial management framework, for example “purchaser provider” models, that require them to pay income distributions to their controlling entity, such as the central government.
16. If dividends or similar distributions to owners are declared (ie the dividends or similar distributions are appropriately authorized and no longer at the discretion of the entity) after the reporting date but before the financial statements are authorized for issue, the dividends are not recognized as a liability at the reporting date because they do not meet the criteria of a present obligation in IPSAS 19. Such dividends or similar distributions are disclosed in the notes in accordance with IPSAS 1, “Presentation of Financial Statements”. Dividends and similar distributions do not include a return of capital.

Disclosure

Disclosure of Non-Adjusting Events After the Reporting Date

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 14
EVENTS AFTER THE REPORTING DATE

30. **If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:**
- (a) **the nature of the event; and**
 - (b) **an estimate of its financial effect, or a statement that such an estimate cannot be made.**
31. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:
-
- (d) announcing a plan to discontinue an operation or major program, disposing of assets or settling liabilities attributable to a discontinued operation or major program, or entering into binding agreements to sell such assets or settle such liabilities (guidance on the treatment and disclosure of discontinued operations can be found in the relevant international or national accounting standard dealing with discontinued operations);
 - (e) major purchases and disposals of assets;
 - (j) in the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities (guidance on accounting for income taxes can be found in the relevant international or national accounting standard dealing with income taxes);
-

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 14
EVENTS AFTER THE REPORTING DATE

Appendix

Amendments to Other IPSASs

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 19, “Provisions, Contingent Liabilities and Contingent Assets” paragraph 87 is amended to read as follows:

87. A decision by management or the governing body to restructure taken before the reporting date does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

- (a) started to implement the restructuring plan; or
- (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

~~In some cases, if~~ an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, ~~a~~ disclosure may be required under International Public Sector Accounting Standard IPSAS 14, “Events After the Reporting Date”, if the restructuring is ~~of such importance material that its and~~ non-disclosure ~~would could affect influence~~ the ability economic decision of ~~the users of~~ taken on the financial statements ~~to make proper evaluations and decisions~~.

A2. In International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 14, “Events After the Reporting Date” are amended to IPSAS 14, “Events after the Reporting Date”.

IPSAS 14—EVENTS AFTER THE REPORTING DATE

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 10 (revised ~~1999~~2003), “Events After the Balance Sheet Date” published by the International Accounting Standards ~~Committee Board (IASCIASB)~~. ~~The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace IASC. The International Accounting Standards (IASs) issued by IASC remain in force until they are amended or withdrawn by IASB.~~ Extracts from IAS 10 are reproduced in this publication of the International Public Sector Committee Accounting Standards Board of the International Federation of Accountants with the permission of IASB.

The approved text of the IASs is that published by IASB in the English language, and copies may be obtained directly from IASB Publications Department, 7th Floor, 166 Fleet Street, London EC4A 2DY, United Kingdom.

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December ~~2001~~2006**IPSAS 14—EVENTS AFTER THE REPORTING DATE****CONTENTS**

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International Public Sector Accounting Standard 14, “Events after the Reporting Date” (IPSAS 14) is set out in paragraphs 1 – 34. All the paragraphs have equal authority. IPSAS 14 should be read in the context of the Basis for Conclusion, and the “Preface to 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.

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 14, “Events after the Reporting Date”, replaces IPSAS 14, “Events after the Reporting Date” (issued December 2001), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 14

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 14 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 14, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 10, “Events after the Reporting Date” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 10 for a public sector specific reason; such variances are retained in this IPSAS 14 and are noted in the Comparison with IAS 10. Any changes to IAS 10 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 14.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 14 are described below.

Dividends or Similar Distributions Declared after the Reporting Date

IN5. The Standard clarifies in paragraph 16 that dividends or similar distributions declared after the reporting date are disclosed in the notes in accordance with IPSAS 1, “Presentation of Financial Statements”. Previously, IPSAS 14 stated that an entity could make the disclosure of such distributions after the reporting date either on the face of the statement of financial position as a separate component of net assets/equity or in the notes to the financial statements.

Amendments to Other IPSASs

IN6. The Standard includes an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project and will be affected as a result of the proposals in this IPSAS

The standards, which have been set in bold 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:

- (a) When an entity should adjust its financial statements for events after the reporting date; and
- (b) The disclosures that an entity should give about the date when the financial statements were authorized for issue and about events after the reporting date.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

Scope

~~1.2.~~ An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the accounting for, and disclosure of, events after the reporting date.

~~2.3.~~ This Standard applies to all public sector entities other than Government Business Enterprises.

~~3.4.~~ Government Business Enterprises (GBEs) are required to comply with 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

~~4.5.~~ The following terms are used in this Standard with the meanings specified:

Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

- (a) **Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and**

- (b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

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.

Authorizing the Financial Statements for Issue

~~5.6.~~ In order to determine which events satisfy the definition of events after the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorized for issue. The reporting date is the last day of the reporting period to which the financial statements relate. The date of authorization for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalize those statements for issue. The audit opinion is provided on those finalized financial statements. Events after the reporting date are all events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue, even if those events occur after the publication of an announcement of the net surplus/deficit, the authorization of the financial statements of a controlled entity, or publication of other selected information relating to the financial statements.

~~6.7.~~ The process involved in preparing and authorizing the financial statements for issue may vary for different types of entities within and across jurisdictions. It can depend upon the nature of the entity, the governing body structure, the statutory requirements relating to that entity and the procedures followed in preparing and finalizing the financial statements. Responsibility for authorization of financial statements of individual government agencies may rest with the head of the central finance agency (or the senior finance official/accounting officer such as the controller or accountant-general). Responsibility for authorization of consolidated financial statements of the government as a whole may rest jointly with the head of the central finance agency (or the senior finance official such as the controller or accountant-general) and the finance minister (or equivalent).

~~7.8.~~ In some cases, as the final step in the authorization process, an entity is required to submit its financial statements to another body (for example, a legislative body such as Parliament or a local council). This body may have the power to require changes to the audited financial statements. In other

EVENTS AFTER THE REPORTING DATE

cases, the submission of statements to the other body may be merely a matter of protocol or process and that other body may not have the power to require changes to the statements. The date of authorization for issue of the financial statements will be determined in the context of the particular jurisdiction.

Recognition and Measurement

8.9. In the period between the reporting date and the date of authorization for issue, elected government officials may announce a government's intentions in relation to certain matters. Whether or not these announced government intentions would require recognition as adjusting events would depend upon whether they provide more information about the conditions existing at reporting date and whether there is sufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

Adjusting Events After the Reporting Date

9.10. An entity should adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date.

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

- (a) The ~~resolution settlement~~ after the reporting date of a court case ~~which, because it that~~ confirms that ~~an the~~ entity ~~already~~ had a present obligation at the reporting date, ~~requires~~ ~~the~~ entity ~~to~~ adjusts ~~a any previously recognized~~ provision ~~already recognized, related to this court case in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" or~~ ~~to~~ recognizes a new provision. ~~instead of~~ The entity does not merely ~~disclosing~~ disclose a contingent liability ~~because the settlement provides additional evidence that would be considered in accordance with paragraph 24 in IPSAS 19. Guidance on accounting for provisions and contingent liabilities is found in IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets;"~~¹

¹ The Committee has published IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" which deals with the application of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" to the public sector. International Public Sector Accounting Standard (IPSAS) 1, "Presentation of Financial Statements" also includes requirements for the presentation of items in the financial statements and notes to the financial statements, including provisions, contingent liabilities and contingent assets.

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- (b) The receipt of information after the reporting date indicating that an asset was impaired² at the reporting date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:
 - (i) The bankruptcy of a debtor which occurs after the reporting date usually confirms that a loss already existed at the reporting date on a receivable account and that the entity needs to adjust the carrying amount of the receivable account; and
 - (ii) The sale of inventories after the reporting date may give evidence about their net realizable value at the reporting date;
- (c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;
- (d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another government under a revenue sharing agreement in place during the reporting period;
- (e) The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and
- (f) The discovery of fraud or errors that show that the financial statements were incorrect.

Non-adjusting Events After the Reporting Date

11.12. An entity should not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting date.

12.13. The following are examples of non-adjusting events after the reporting date:

- (a) Where an entity has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorized for issue. The fall in fair value does not normally relate to the condition of the property at the reporting date, but reflects circumstances that have arisen in the following period. Therefore, despite its policy of regularly revaluing, an entity would not adjust

² The Public Sector Committee is currently developing proposals for the identification and measurement of impairment within the public sector. Refer to “Exposure Draft 23—Impairment of Assets” (Issued September 2003).

EVENTS AFTER THE REPORTING DATE

the amounts recognized in its financial statements for the properties. Similarly, the entity does not update the amounts disclosed for the property as at the reporting date, although it may need to give additional disclosure under paragraph 29; and

- (b) Where an entity charged with operating particular community service programs decides after the reporting date, but before the financial statements are authorized, to provide/distribute additional benefits directly or indirectly to participants in those programs. The entity would not adjust the expenses recognized in its financial statements in the current reporting period, although the additional benefits may meet the conditions for disclosure as non-adjusting events under paragraph 29.

Dividends/~~Distributions~~ or Similar Distributions

~~13.14.~~ **If an entity declares dividends or similar distributions are proposed or declared after the reporting date, an the entity should shall not recognize those distributions as a liability at the reporting date.**

~~14.15.~~ Dividends may arise in the public sector when, for example, a public sector entity controls and consolidates the financial statements of a GBE that has outside ownership interests to whom it pays dividends. In addition, some public sector entities adopt a financial management framework, for example “purchaser provider” models, that require them to pay income distributions to their controlling entity, such as the central government.

~~15.16.~~ **If International Public Sector Accounting Standard (IPSAS) 1, “Presentation of Financial Statements” requires an entity to disclose the amount of dividends or similar distributions to owners that are were proposed or declared (i.e. the dividends or similar distributions are appropriately authorized and no longer at the discretion of the entity) after the reporting date but before the financial statements were are authorized for issue, the dividends or similar distributions are not recognized as a liability at the reporting date because they do not meet the criteria of a present obligation in IPSAS 19. Such dividends or similar distributions are disclosed in the notes in accordance with IPSAS 1, “Presentation of Financial Statements. Dividends and similar distributions do not include a return of capital. IPSAS 1 permits an entity to make this disclosure either:**

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

Going Concern

- 16.17.** The determination of whether the going concern assumption is appropriate needs to be considered by each entity. However, the assessment of going concern is likely to be of more relevance for individual entities than for a government as a whole. For example, an individual government agency may not be a going concern because the government of which it forms part has decided to transfer all its activities to another government agency. However, this restructuring has no impact upon the assessment of going concern for the government itself.
- 17.18.** **An entity should not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or the governing body determine after the reporting date either that there is an intention to liquidate the entity or to cease operating, or that there is no realistic alternative but to do so.**
- 18.19.** In assessing whether the going concern assumption is appropriate for an individual entity, those responsible for the preparation of the financial statements, and/or the governing body, need to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organizational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.
- 19.20.** In the case of entities whose operations are substantially budget-funded, going concern issues generally only arise if the government announces its intention to cease funding the entity.
- 20.21.** Some agencies, although not GBEs, may be required to be fully or substantially self-funding, and to recover the cost of goods and services from users. For any such entity, deterioration in operating results and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.
- 21.22.** If the going concern assumption is no longer appropriate, this Standard requires an entity to reflect this in its financial statements. The impact of such a change will depend upon the particular circumstances of the entity, for example, whether operations are to be transferred to another government entity, sold or liquidated. Judgment is required in determining whether a change in the carrying value of assets and liabilities is required.
- 22.23.** When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the

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creation of additional liabilities or triggers clauses in debt contracts leading to the reclassification of certain debts as current liabilities.

23-24. IPSAS 1 requires certain disclosures if:

- (a) The financial statements are not prepared on a going concern basis. Ipsas 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or
- (b) Those responsible for the preparation of the financial statements are aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting date. IPSAS 1 requires such uncertainties to be disclosed.

Restructuring

24-25. Where a restructuring announced after the reporting date meets the definition of a non-adjustable event, the appropriate disclosures should be made in accordance with this Standard. Guidance on the recognition of provisions associated with restructuring is found in Accounting Standards on "Provisions, Contingent Liabilities and Contingent Assets." Simply because a restructuring involves the disposal of a component of an entity this does not in itself bring into question the entity's ability to continue as a going concern. However, where a restructuring announced after the reporting date means that an entity is no longer a going concern, the nature and amount of assets and liabilities recognized may change.

Disclosure

Disclosure of Date of Authorization for Issue

25-26. **An entity should disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.**

26-27. It is important for users to know when the financial statements were authorized for issue, as the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any persons or organizations have the authority to amend the financial statements after issuance. Examples of individuals or bodies that may have the power to amend the financial statements after issuance are Ministers, the government of which the entity forms part, Parliament or an

EVENTS AFTER THE REPORTING DATE

elected body of representatives. If changes are made, the amended financial statements are a new set of financial statements.

Updating Disclosure about Conditions at the Reporting Date

27-28. If an entity receives information after the reporting date, but before the financial statements are authorized for issue, about conditions that existed at the reporting date, the entity should update disclosures that relate to these conditions, in the light of the new information.

28-29. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorized for issue, even when the information does not affect the amounts that the entity recognizes in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting date about a contingent liability that existed at the reporting date. In addition to considering whether it should now recognize a provision an entity updates its disclosures about the contingent liability in the light of that evidence.

Disclosure of Non-adjusting Events After the Reporting Date

29-30. ~~Where~~ If non-adjusting events after the reporting date are material of such importance that non-disclosure would could affect the ability of the users of the financial statements to make proper evaluations and decisions influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity ~~should~~ shall disclose the following ~~information~~ for each significant material category of non-adjusting event after the reporting date:

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

30-31. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure ~~may be of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions~~:

- (a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since reporting date;
- (b) The entity decides after reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to

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participants in community service programs that it operates, and those additional benefits have a major impact on the entity;

- (c) An acquisition or disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;
- (d) Announcing a plan to discontinue an operation or major program, disposing of assets or settling liabilities attributable to a ~~discontinuing-discontinued~~ operation³ or major program, or entering into binding agreements to sell such assets or settle such liabilities. ~~International Accounting Standard (IAS) 35, "Discontinuing Operations" provides~~ (guidance on the treatment and disclosure of ~~discontinuing-discontinued~~ operations can be found in the relevant international or national accounting standard dealing with discontinued operations);
- (e) Major purchases and disposals of assets;
- (f) The destruction of a major building by a fire after the reporting date;
- (g) Announcing, or commencing the implementation of, a major restructuring (guidance on accounting for provisions associated with restructuring is found in accounting standards on provisions, contingent liabilities and contingent assets);
- (h) The introduction of legislation to forgive loans made to entities or individuals as part of a program;
- (i) Abnormally large changes after the reporting date in asset prices or foreign exchange rates;
- (j) In the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and

³ ~~The Public Sector Committee has not yet addressed the issue of discontinuing operations, which was previously included within IAS 8 (revised 1993), "Net Profit/Loss for the Period, Fundamental Errors and Changes in Accounting Policies" and which is now the subject of a separate Standard, IAS 35 (1998), "Discontinuing Operations." Consistent with the definition in IAS 35, the term discontinuing operation as used in this Standard refers to a component of an entity:~~

~~(a) That the entity, pursuant to a single plan, is:~~

~~(i) Disposing of substantially in its entirety, such as by selling the component in a single transaction, by demerger or spin-off of ownership of the component to the entity's owners;~~

~~(ii) Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or~~

~~(iii) Terminating through abandonment;~~

~~(b) That represents a separate major activity/line of business or geographical area of operations; and~~

~~(c) That can be distinguished operationally and for financial reporting purposes.~~

Item 14.11 Draft IPSAS 14, "Events after the Reporting Date"

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deferred tax assets and liabilities ~~IAS 12, “Income Taxes” contains~~ (guidance on accounting for income taxes can be found in the relevant international or national accounting standard dealing with income taxes);

- (k) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and
- (l) Commencing major litigation arising solely out of events that occurred after the reporting date.

Effective Date

31.32. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after January 1, ~~2003~~2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

32.33. 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 14 (2001)

34. This Standard supersedes IPSAS 12, “Inventories” issued in 2001.

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Amendments to Other IPSASs

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 19, “Provisions, Contingent Liabilities and Contingent Assets” paragraph 87 is amended to read as follows:

87. A decision by management or the governing body to restructure taken before the reporting date does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

- (a) started to implement the restructuring plan; or
- (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

~~In some cases, If~~ an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, ~~disclosure may be is~~ required under International Public Sector Accounting Standard IPSAS 14, “Events After the Reporting Date”, if the restructuring is ~~of such importance material that its and~~ non-disclosure ~~would could affect influence~~ the ~~ability economic decision~~ of the users ~~of taken on~~ the financial statements ~~to make proper evaluations and decisions~~.

A2. In International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 14, “Events After the Reporting Date” are amended to IPSAS 14, “Events after the Reporting Date”.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

- BC1.** The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2.** Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.
- BC3.** In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)⁴ as part of its General Improvements Project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.
- BC4.** IPSAS 14, issued in December 2001 was based on IAS 10 (Revised 1999), "Events After the Balance Sheet Date" which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)⁵, actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

⁴ The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

⁵ The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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- BC5. The IPSASB reviewed the improved IAS 10 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).
- BC6. IAS 10 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 12 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

Table of Concordance

This table shows how the contents of the superseded version of IPSAS 14 and the current version of IPSAS 14 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

<u>Superseded IPSAS 14 paragraphs</u>	<u>Current IPSAS 14 paragraph</u>	<u>Superseded IPSAS 14 paragraphs</u>	<u>Current IPSAS 14 paragraph</u>
Objective	1	28	29
1	2	29	30
2	3	30	31
3	4	31	32
4	5	32	33
5	6	None	34
6	7		
7	8		
8	9		
9	10		
10	11		
11	12		
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Comparison with IAS 10

International Public Sector Accounting Standard (IPSAS) 14, “Events After the Reporting Date” is drawn primarily from International Accounting Standard (IAS) 10 (revised 1999), “Events After the Balance Sheet Date.” The main differences between IPSAS 14 and IAS 10 are as follows:

- IPSAS 14 notes that where the going concern assumption is no longer appropriate, judgment is required in determining the impact of this change on the carrying value of assets and liabilities recognized in the financial statements (paragraph 21).
- IPSAS 14 contains additional commentary on determining the date of authorization for issue (paragraphs 5, 6 and 7).
- Commentary additional to that in IAS 10 has been included in IPSAS 14 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 14 uses different terminology, in certain instances, from IAS 10. The most significant examples are the use of the terms ~~“entity,”~~ ~~“revenue,”~~ “statement of financial position,” “net assets/equity” and “reporting date” in IPSAS 14. The equivalent terms in IAS 10 are ~~“enterprise,”~~ ~~“income,”~~ “balance sheet,” “equity” and “balance sheet date.”
- IPSAS 14 does not use the term “income”, which in IAS 10 has a broader meaning than the term “revenue”.
- IPSAS 14 contains a definition of “reporting date,” IAS 10 does not contain a definition of “balance sheet date.”

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Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 40 (~~2000~~Revised 2003), “Investment Property” published by the International Accounting Standards ~~Committee Board~~ (IASB). ~~The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace IASC. The International Accounting Standards (IASs) issued by IASC remain in force until they are amended or withdrawn by IASB.~~ Extracts from IAS 40 are reproduced in this publication of the Public Sector Committee International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of IASB.

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~~International Public Sector Accounting Standard IPSAS 16~~

~~(revised 200X)~~

~~Investment Property~~

~~[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]~~

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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, and the “Preface to 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.

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Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 16, “Investment Property”, replaces IPSAS 16, “Investment Property” (issued December 2001), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 16

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 16 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 16, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 40, “Investment Property” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 40 for a public sector specific reason; such variances are retained in this IPSAS 16 and are noted in the Comparison with IAS 40. Any changes to IAS 40 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 16.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 16 are described below.

Property Interests Held by a Lessee under an Operating Lease

~~—IN5. to The Standard allows~~ in paragraph 8 a property interest held by a lessee under an operating lease to be classified and accounted for as investment property provided certain criteria are met.

~~—IN6. to The Standard requires~~ 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, i.e. 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).

~~—IN7. to The Standard specify specifies~~ that the subsequent measurement choice between cost model and fair value model is not available for a lessee accounting for a property interest held under an operating lease that it has elected to classify as investment property. Such investment property is

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required to be measured using the fair value model. Once this alternative is selected for one such property, all other properties classified as investment properties held by the entity are to be accounted for consistently on a fair value basis (see paragraphs 42-43).

~~—IN8.~~ Previously, IPSAS 16 did not contain these requirements.

Changes to Reflect Equivalent Requirements in Proposed IPSAS 17 Property, Plant and Equipment

~~—IN9. to The Standard~~ requires 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).

~~—IN10. to The Standard~~ requires 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).

~~—IN11. to the Standard~~ requires 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.

~~—IN12. to The Standard~~ requires 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).

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**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD 16—INVESTMENT PROPERTY**

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

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investment property.**
3. **This Standard applies to all public sector entities other than Government Business Enterprises.**
4. This Standard 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 to the measurement in a lessor's financial statements of investment property 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 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 its net investment in a finance lease;
 - (e) Accounting for sale and leaseback transactions; and
 - (f) Disclosure about finance leases and operating leases.
5. This Standard does not apply to:
 - (a) Biological assets related to agricultural activity (see the relevant international or national accounting standard dealing with agriculture); and
 - (b) Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

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6. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. GBEs are defined in IPSAS 1, “Presentation of Financial Statements”.

Definitions

7. 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.

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,

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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

9. 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.
10. 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 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.
11. 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.
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.

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- (b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land 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 regarded as held for capital appreciation).
 - (c) A building owned by the entity (or held by the 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.
 - (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.
13. The following are examples of items that are not investment property and are therefore 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 as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.
 - (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”).
 - (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.
 - (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 applies to existing investment property that is being

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redeveloped for continued future use as investment property (see paragraph 68).

- (e) Property that is leased to another entity under a finance lease.
- (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.
- (g) Property held for strategic purposes which would be accounted for in accordance with IPSAS 17.

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 some property that 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.
15. In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example 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.
16. In other cases, the services provided are significant. 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 significant to the arrangement as a whole. Therefore, an owner-managed hotel or hostel is owner-occupied property, rather than investment property.

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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 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 day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.
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 9 to 17. Paragraph 86(c) requires an entity to disclose these criteria when classification is difficult.
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, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 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

20. **Investment property shall be recognized as an asset when, and only when:**
 - (a) **It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and**
 - (b) **The cost or fair value of the investment property can be measured reliably.**
21. 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

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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.

22. 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 27 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.
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.

Measurement at Recognition

26. **Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).**
27. **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.**
28. 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.
29. 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

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IPSAS 17. At that date, the property becomes investment property and this Standard applies (see paragraphs 66(e) and 76).

30. The cost of investment property is not increased by:
 - (a) Start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),
 - (b) 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.
31. 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.
32. 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.
33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to initial recognition, to adopt either the fair value model (paragraphs 42 to 64) or the cost model (paragraph 65).
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, i.e. 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.**
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

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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 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.

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.

Measurement After Recognition

Accounting Policy

39. **With the exception noted in paragraph 43, an entity shall choose as its accounting policy either the fair value model in paragraphs 42-64 or the cost model in paragraph 65 and shall apply that policy to all of its investment property.**

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40. International Public Sector Accounting Standard IPSAS 3, “ Accounting Policies, Changes in Accounting Estimates and Errors” states that a voluntary change in accounting policy shall be made only if the change will result in a more appropriate presentation of transactions, other events or conditions in the entity’s financial statements. It is highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation.
41. 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 has recent experience in the location and category of the investment property being valued.

Fair Value Model

42. **After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 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.**
44. **A gain or loss arising from a change in the fair value of investment property shall be recognized in surplus or deficit for the period in which it arises.**
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). 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.
46. An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.
47. **The fair value of investment property shall reflect market conditions at the reporting date.**
48. Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated 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

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knowledgeable, willing parties if exchange and completion are not simultaneous.

49. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current 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 (e.g. 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.
51. 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 market conditions at the reporting date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.
52. 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 current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. 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).
53. The definition of fair value refers to an arm’s length transaction. An arm’s length transaction is one between parties that do not have a particular or

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special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

54. The best evidence of fair value is given by current prices 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.
55. In the absence of current prices in an active market of the kind described in paragraph 54, an entity considers information from a variety of sources, including:
- (a) Current prices 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 (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.
56. In some cases, the various sources listed in the previous paragraph may suggest different conclusions 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 range of reasonable fair value estimates.
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 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 on a continuing basis (see paragraph 62).
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,

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“Impairment of Assets”¹. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity’s estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:

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

59. In determining the fair value of investment property, an entity does not double-count assets or liabilities that are recognized 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 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, 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.

¹IPSAS 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 the future cash flows expected to be derived from an asset or cash-generating unit.” The IPSASB is currently developing a Standard on impairment of cash-generating assets based on IAS 36.

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60. 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.
61. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized liabilities) will exceed the present value of the related cash receipts. 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 Determine Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property 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 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 shall measure that investment property using the cost model in IPSAS 17 Property, Plant and Equipment. The residual value of the investment property shall be assumed to be zero. The entity shall apply IPSAS 17 until disposal of the investment property.**
63. 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, 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.
64. **If an entity has previously measured an investment property at fair value, it 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

65. **After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with IPSAS 17's requirements for that model, i.e. at cost less any accumulated depreciation and any accumulated impairment losses.**

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Transfers

66. **Transfers to, or from, investment property 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) to investment property.**
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.
68. Paragraph 66(b) 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, 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, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.
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.

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70. Paragraphs 71-76 apply to recognition and measurement issues that 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.
71. **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with IPSAS 17 or IPSAS 12 Inventories shall be its fair value at the date of change in use.**
72. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IPSAS 17 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IPSAS 17 and its fair value in the same way as a revaluation in accordance with IPSAS 17.**
73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property and recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with IPSAS 17 and its fair value in the same way as a revaluation in accordance with IPSAS 17. In other words:
- (a) Any resulting decrease in the carrying amount of the property is recognized in surplus or deficit. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus.
 - (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 surplus or deficit. The amount recognized in surplus or deficit 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.
 - (ii) Any remaining part of the increase is credited directly to net assets/equity in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in net assets/equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.
74. **For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the**

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property at that date and its previous carrying amount shall be recognized in surplus or deficit.

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.
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 shall be recognized in surplus or deficit.**

Disposals

77. **An investment property 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.**
78. The disposal of an investment property may 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 to a disposal effected by entering into a finance lease 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 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.
80. **Gains or losses arising from the retirement or disposal of investment property 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.**
81. The consideration receivable on disposal of an investment property is recognized initially at fair value. In particular, if payment for an investment

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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 in accordance with IPSAS 9 using the effective interest method.

82. An entity applies IPSAS 19 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.
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.**
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

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

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- (c) **When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations.**
- (d) **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 shall disclose) because of the nature of the property and lack of comparable market data.**
- (e) **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 has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.**
- (f) **The amounts recognized in 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.**
- (g) **The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal.**
- (h) **Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.**

Fair Value Model

87. **In addition to the disclosures required by paragraph 86, an entity that applies the fair value model in paragraphs 42-64 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:**
- (a) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of an asset;**
 - (b) **Additions resulting from acquisitions through entity combinations;**

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- (c) **Disposals;**
 - (d) **Net gains or losses from fair value adjustments;**
 - (e) **The net exchange differences arising on the translation of the financial statements 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 changes.**
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.**
89. **In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the cost model in IPSAS 17, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:**
- (a) **A description of the investment property;**
 - (b) **An explanation of why fair value cannot be determined reliably;**
 - (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

90. **In addition to the disclosures required by paragraph 86, an entity that applies the cost model in paragraph 65 shall disclose:**
- (a) **The depreciation methods used;**

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- (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:**
 - (i) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;**
 - (ii) **Additions resulting from acquisitions through entity combinations;**
 - (iii) **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;**
 - (vi) **The net exchange differences arising on the translation of the financial statements 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 changes; and**
- (e) **The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot determine the fair value of the investment property reliably, the entity 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

91. **An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards shall initially**

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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.

92. **The entity 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 accrual accounting is first adopted in accordance with International Public Sector Accounting Standards.**
93. Prior to first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, 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 recognized. This Standard requires entities to initially recognize investment property at cost or, fair value as at the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. 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 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

94. **Under the fair value model, an entity shall recognize the effect of applying this Standard as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first applied. 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 7 and the guidance in paragraphs 45-61), the entity is encouraged, but not required:**
 - (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), it shall not restate comparative information and shall disclose that fact.**
95. On the first 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

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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 from that required by IPSAS 3. IPSAS 3 requires comparative information to be restated unless such restatement is impracticable. This Standard only encourages such comparative information to be restated in certain circumstances.

96. When an entity first 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.
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

98. Prior to first application 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 is made when an entity first 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.
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 those accounting policies.
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.**

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Effective Date

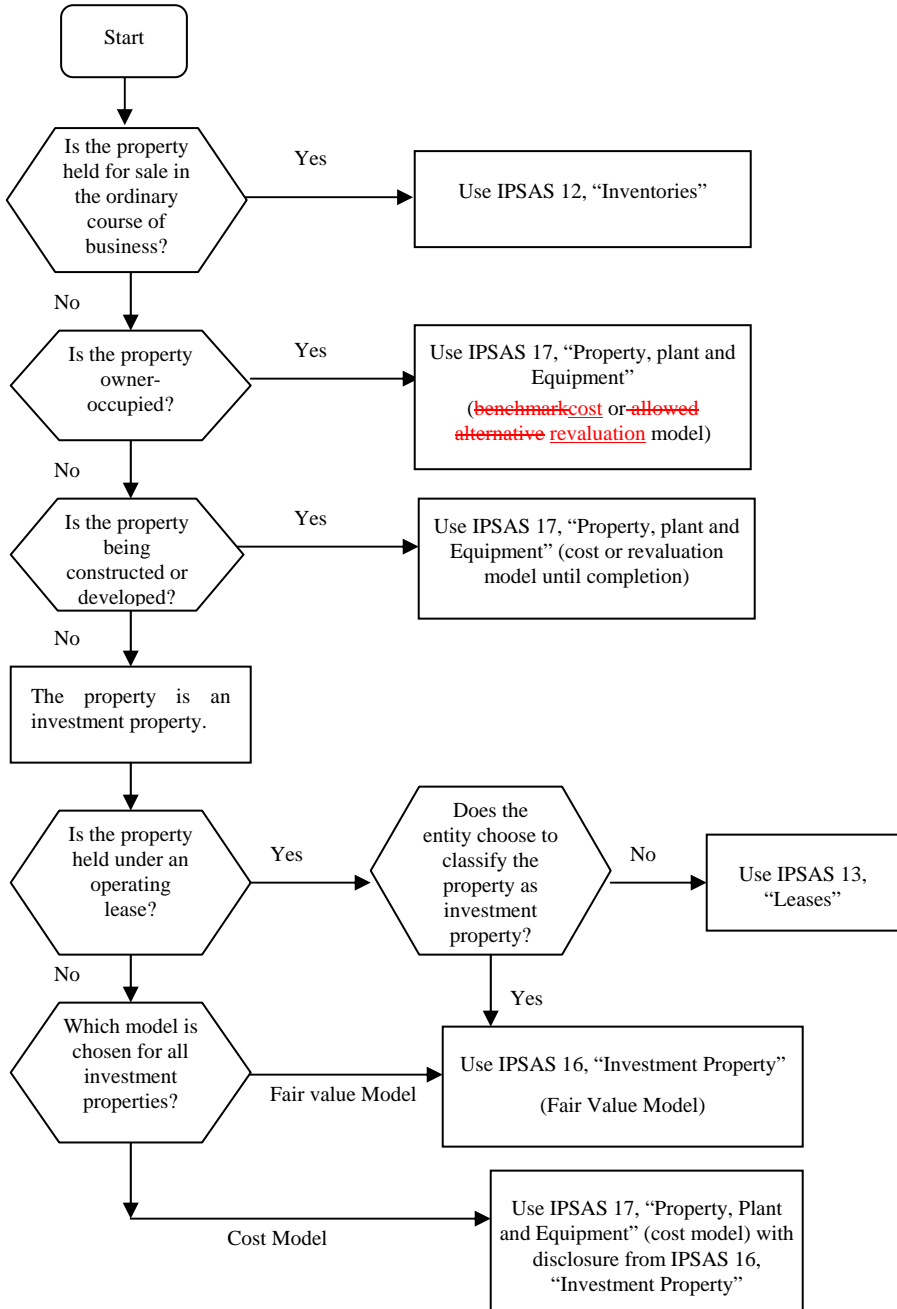
101. **An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after ~~MM-DD, YYYY~~January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before ~~MM-DD, YYYY~~January 1, 2008, it shall disclose that fact.**
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.

Illustrative Decision Tree

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



Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)² as part of its General Improvements Project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.

BC4. IPSAS 16, issued in December 2001 was based on IAS 40 (2000), "Investment Property" which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)³, actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

² The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

³ The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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BC5. The IPSASB reviewed the improved IAS 40 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).

BC6. IAS 40 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 16 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

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Table of Concordance

This table shows how the contents of the superseded of IPSAS 16 and the current version of IPSAS 16 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

<u>Superseded IPSAS 16 paragraphs</u>	<u>Current IPSAS 16 paragraph</u>	<u>Superseded IPSAS 16 paragraphs</u>	<u>Current IPSAS 16 paragraph</u>	<u>Superseded IPSAS 16 paragraphs</u>	<u>Current IPSAS 16 paragraph</u>
Objective	<u>1</u>	<u>29</u>	<u>33</u>	<u>58</u>	<u>65</u>
<u>1</u>	<u>2</u>	<u>30</u>	<u>None</u>	<u>59</u>	<u>55</u>
<u>2</u>	<u>3</u>	<u>31</u>	<u>None</u>	<u>60</u>	<u>67</u>
<u>3</u>	<u>4</u>	<u>32</u>	<u>39</u>	<u>61</u>	<u>68</u>
<u>4</u>	<u>5</u>	<u>33</u>	<u>40</u>	<u>62</u>	<u>69</u>
<u>5</u>	<u>6</u>	<u>34</u>	<u>41</u>	<u>63</u>	<u>70</u>
<u>6</u>	<u>7</u>	<u>35</u>	<u>42</u>	<u>64</u>	<u>71</u>
<u>7</u>	<u>9</u>	<u>36</u>	<u>44</u>	<u>65</u>	<u>72</u>
<u>8</u>	<u>10</u>	<u>37</u>	<u>45</u>	<u>66</u>	<u>73</u>
<u>9</u>	<u>11</u>	<u>38</u>	<u>46</u>	<u>67</u>	<u>74</u>
<u>10</u>	<u>12</u>	<u>39</u>	<u>47</u>	<u>68</u>	<u>75</u>
<u>11</u>	<u>13</u>	<u>40</u>	<u>48</u>	<u>69</u>	<u>76</u>
<u>12</u>	<u>14</u>	<u>41</u>	<u>49</u>	<u>70</u>	<u>77</u>
<u>13</u>	<u>15</u>	<u>42</u>	<u>51</u>	<u>71</u>	<u>78</u>
<u>14</u>	<u>16</u>	<u>43</u>	<u>51</u>	<u>72</u>	<u>80</u>
<u>15</u>	<u>17</u>	<u>44</u>	<u>52</u>	<u>73</u>	<u>81</u>
<u>16</u>	<u>18</u>	<u>45</u>	<u>None</u>	<u>74</u>	<u>85</u>
<u>17</u>	<u>None</u>	<u>46</u>	<u>53</u>	<u>75</u>	<u>86</u>
<u>18</u>	<u>19</u>	<u>47</u>	<u>54</u>	<u>76</u>	<u>87</u>
<u>19</u>	<u>20</u>	<u>48</u>	<u>55</u>	<u>77</u>	<u>89</u>
<u>20</u>	<u>32</u>	<u>49</u>	<u>56</u>	<u>78</u>	<u>90</u>
<u>21</u>	<u>22</u>	<u>50</u>	<u>57</u>	<u>79</u>	<u>91</u>
<u>22</u>	<u>26</u>	<u>51</u>	<u>58</u>	<u>80</u>	<u>92</u>
<u>23</u>	<u>27</u>	<u>52</u>	<u>59</u>	<u>81</u>	<u>93</u>
<u>24</u>	<u>28</u>	<u>53</u>	<u>60</u>	<u>82</u>	<u>94</u>
<u>25</u>	<u>29</u>	<u>54</u>	<u>61</u>	<u>83</u>	<u>95</u>
<u>26</u>	<u>30</u>	<u>55</u>	<u>62</u>	<u>84</u>	<u>96</u>
<u>27</u>	<u>31</u>	<u>56</u>	<u>63</u>	<u>85</u>	<u>98</u>
<u>28</u>	<u>32</u>	<u>57</u>	<u>64</u>	<u>86</u>	<u>101</u>

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<u>Superseded</u> <u>IPSAS 16</u> <u>paragraphs</u>	<u>Current</u> <u>IPSAS 16</u> <u>paragraph</u>	<u>Superseded</u> <u>IPSAS 16</u> <u>paragraphs</u>	<u>Current</u> <u>IPSAS 16</u> <u>paragraph</u>	<u>Superseded</u> <u>IPSAS 16</u> <u>paragraphs</u>	<u>Current</u> <u>IPSAS 16</u> <u>paragraph</u>
<u>87</u>	<u>102</u>	<u>None</u>	<u>50</u>	<u>None</u>	<u>99 – 100</u>
<u>None</u>	<u>8</u>	<u>None</u>	<u>79</u>	<u>None</u>	<u>103</u>
<u>None</u>	<u>23 – 25</u>	<u>None</u>	<u>82 – 84</u>		
<u>None</u>	<u>34 – 38</u>	<u>None</u>	<u>88</u>		
<u>None</u>	<u>43</u>	<u>None</u>	<u>97</u>		

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Comparison with IAS 40

International Public Sector Accounting Standard IPSAS 16 *Investment Property* is drawn primarily from International Accounting Standard IAS 40 (2003), “Investment Property”. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 4, “Insurance Contracts” and 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 those International Financial Reporting Standards. 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*.
- IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 16. 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.
- 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 “statement of financial performance” and “statement of financial position” in IPSAS 16. The equivalent terms in IAS 40 are “income statement” and “balance sheet”.
- IPSAS 16 does not use the term “income”, which in IAS 40 has a broader meaning than the term “revenue”.

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Acknowledgment

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

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~~International Public Sector Accounting Standard IPSAS 17~~

~~(revised 200X)~~

~~Property, Plant and Equipment~~

[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 17—PROPERTY, PLANT AND EQUIPMENT

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International Public Sector Accounting Standard 17, “Property, Plant and Equipment” (IPSAS 17) is set out in paragraphs 1-109 and the Appendix. All the paragraphs have equal authority. IPSAS 17 should be read in the context of its objective, the Basis for Conclusion and the Preface to 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.

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Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 17, “Property, Plant and Equipment”, replaces 17, “Property, Plant and Equipment” (issued December 2001), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 17

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 17 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 17, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 16, “Property, Plant and Equipment” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 16 for a public sector specific reason; such variances are retained in this IPSAS 16 and are noted in the Comparison with IAS 16. Any changes to IAS 16 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 16.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 17 are described below.

Definitions

IN5. In paragraph 13:

- ~~to—The Standard~~ defines the 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—define~~ these ~~definition—terms~~.
- ~~to—The Standard~~ amends the definition of “residual value”. The amended definition ~~would—requires~~ 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.

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- ~~to~~ The Standard 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-related~~ guidance.

Recognition

- ~~—IN6. to~~ The Standard requires 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.
- ~~—IN7. to~~ The Standard clarify clarifies 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

- IN8. ~~to~~ The Standard requires 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.
- IN9. ~~to~~ The Standard requires 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 to 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

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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

~~—IN10.~~ ~~to~~ The Standard requires an entity to determine the depreciation charge separately for each significant part of an item of property, plant and equipment (see paragraphs 59- ~~to~~ 63). Previously, IPSAS 17 did not make this clear.

~~—IN11.~~ ~~to~~ The Standard requires 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

~~—IN12.~~ ~~to~~ The Standard requires 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

~~—IN13.~~ ~~to~~ The Standard requires 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.

~~—IN14.~~ ~~to~~ The Standard requires 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

~~—IN15.~~ ~~to~~ The Standard requires the entity to recognize the effects of the initial recognition of property, plant and equipment as an adjustment to the

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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).

~~—IN16. ~~to The Standard clarify~~~~ clarifies that an entity shall retrospectively apply accounting policies in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” when it initially recognizes an item of property, plant and equipment at cost in accordance with IPSAS 17 (see paragraph 99).

Amendments to Other IPSASs

~~—IN17. ~~to The Standard~~~~ includes 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.

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 17—PROPERTY, PLANT AND EQUIPMENT

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 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

2. **An entity that prepares and presents financial statements under the accrual basis of accounting 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 88, 89 and 92 apply to those heritage assets that are recognized.**
3. **This Standard applies to all public sector entities other than Government Business Enterprises.**
4. This Standard applies to property, plant and equipment including:
 - (a) Specialist military equipment; and
 - (b) Infrastructure assets.

The transitional provisions in paragraphs 95 to 104 provide relief from the requirement to recognize all property, plant and equipment during the five year transitional period.

5. This Standard does not apply to:
 - (a) Biological assets related to agricultural activity (see the relevant international or national accounting standard dealing with agriculture); or
 - (b) Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves and similar non-regenerative resources).

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However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in 5(a) or 5(b).

6. Other International Public Sector Accounting Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, IPSAS 13, "Leases" requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.
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

8. 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.
9. 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.

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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.

10. 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.
11. The disclosure requirements in paragraphs 88 to 94 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

12. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements”.

Definitions

13. 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.

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

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

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

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

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

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

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

Property, plant and equipment are tangible items that:

- (a) Are held 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 fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

The **residual value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the 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:

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

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those

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other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Recognition

14. **The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:**
 - (a) **It is probable that future economic benefits or service potential associated with the item will flow to the entity; and**
 - (b) **The cost or fair value of the item can be measured reliably.**
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.
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 26 to 29 of this Standard, under certain circumstances cost is determined by reference to fair value.
17. Spare parts and servicing equipment are usually carried as inventory and recognized in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.
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.

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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

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”.

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Subsequent Costs

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.
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 to 87).
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.

Measurement at Recognition

26. **An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.**
27. **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.**
28. 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 no or nominal consideration, to enable the local government to

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develop parks, roads and paths in the development. An asset may also be acquired at ~~nil~~-no 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.

29. For the purposes of this Standard, the 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 27, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 44, and the supporting commentary in paragraphs 45 to 50, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

Elements of Cost

30. 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.
 - (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
 - (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.
31. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in the relevant international or national accounting standard dealing with employee benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;
 - (b) Costs of site preparation;
 - (c) Initial delivery and handling costs;
 - (d) 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
 - (f) Professional fees.
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

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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”.

33. 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.
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.
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.
36. 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

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course of ~~business~~operations, the cost of the asset is usually the same as the cost of constructing an asset 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 self-constructing an asset is not included in the cost of the asset. IPSAS 5 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of cost

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.
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 has commercial substance, the entity-specific value of the portion of the entity's

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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.

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.
41. The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with IPSAS 13 *Leases*.

Measurement after Recognition

42. An entity shall choose either 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.

Cost Model

43. After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

44. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably 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 shall be made with sufficient regularity 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 54 to 56.
45. 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.

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46. 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.
47. 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.
48. If there is no market-based evidence of fair value because of the specialized nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, reproduction cost, 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 period, and whether the capacity of the reference asset is the same as that of the asset being valued.
49. The frequency of revaluations depends upon the 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 experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.
50. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

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- (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 applying an index to its depreciated replacement cost.
- (b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is ~~dealt with~~accounted for in accordance with paragraphs 54 and 55.

- 51. **If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.**
- 52. A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:
 - (a) Land;
 - (b) Operational buildings;
 - (c) Roads;
 - (d) Machinery;
 - (e) Electricity transmission networks;
 - (f) Ships;
 - (g) Aircraft;
 - (h) Specialist military equipment;
 - (i) Motor vehicles;
 - (j) Furniture and fixtures;
 - (k) Office equipment; and
 - (l) Oil rigs.
- 53. The items within 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 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 and provided the revaluations are kept up to date.

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54. **If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**
55. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**
56. **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.**
57. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when 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 transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.
58. Guidance on the effects on taxes on surpluses, if any, resulting from the revaluation of property, plant and equipment can be found in the relevant international or national accounting standard dealing with income taxes.

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, in most cases, it would be required 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

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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.
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.**
65. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with the relevant international or national accounting standard dealing with intangible assets.

Depreciation Amount and Depreciation Period

66. **The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**
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) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors".**
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.~~

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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.
71. Depreciation of an asset begins when it is available for use, i.e. 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.
72. The future economic benefits or service potential embodied in an item of property, plant and equipment ~~is~~are 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 obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:
 - (a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
 - (b) 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, 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.
 - (d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.
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 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 the asset is a matter of judgment based on the experience of the entity with similar assets.

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74. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land 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 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

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 to an asset 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.**
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 units of production method. Straight-line depreciation results in a constant charge over the useful life ~~of the asset~~ if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life ~~of the asset~~. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is 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.

Impairment

79. To determine whether an item of property, plant and equipment is impaired, an entity applies IPSAS 21, "Impairment of Non-Cash-Generating Assets". ~~The That~~ Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

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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.**
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.

Derecognition

82. **The carrying amount of an item of property, plant and equipment shall be derecognized:-**
 - (a) **On disposal; or**
 - (b) **When no future economic benefits or service potential is expected from its use or disposal.**
83. **The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 13, “Leases” requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.**
84. The disposal of an item of property, plant and equipment may occur in a variety ways (e.g. 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.
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

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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.

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.**
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.

Disclosure

88. **The financial statements 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;**
 - (b) **The depreciation methods used;**
 - (c) **The useful lives or the depreciation rates used;**
 - (d) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**
 - (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**
 - (i) **Additions;**
 - (ii) **Disposals;**
 - (iii) **Acquisitions through ~~business entity~~ combinations;**
 - (iv) **Increases or decreases resulting from revaluations under paragraphs 44, 54 and 55 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21;**
 - (v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21;**
 - (vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21;**
 - (vii) **Depreciation;**

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- (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 operation into the presentation currency of the reporting entity; and**
 - (ix) **other changes.**
89. **The financial statements 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, and property, plant and equipment pledged as securities for liabilities;**
 - (b) **The amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction;**
 - (c) **The amount of contractual commitments for the acquisition of property, plant and equipment; and**
 - (d) **If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.**
90. 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 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) Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and
 - (b) Accumulated depreciation at the end of the period.
91. In accordance with IPSAS 3 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. 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, removing or restoring items of property, plant and equipment;
 - (c) Useful lives; and
 - (d) Depreciation methods.

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92. **If a class of property, plant and equipment is stated at revalued amounts, the following shall be disclosed:**
- (a) **The effective date of the revaluation;**
 - (b) **Whether an independent valuer was involved;**
 - (c) **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 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.**
93. In accordance with IPSAS 21 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 88(e) (iv) to (vi).
94. Users of financial statements may also find the following information relevant to their needs:
- (a) The carrying amount of temporarily idle property, plant and equipment;
 - (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
 - (c) The carrying amount of property, plant and equipment retired from active use and held for disposal; and
 - (d) When the 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

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 accrual accounting in accordance with International Public Sector Accounting Standards.**

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

98. Prior to first application 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 recognized. This Standard 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 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.

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 those accounting policies.

100. Paragraph 14 of this Standard requires the cost of an item of property, plant and equipment to be recognized as an asset if, and only if:
 - (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
 - (b) The cost or fair value of the item can be measured reliably.

101. The transitional provisions in paragraphs 95 and 96 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 accrual accounting in accordance with International Public Sector

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Accounting Standards, entities are not required to comply fully with the requirements of paragraph 14.

102. Notwithstanding the transitional provisions in paragraph 95 and 96, 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.
103. The exemption from the requirements of paragraph 14 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 95 and 96.
104. **When an entity takes advantage of the transitional provisions in paragraphs 95 and 96 that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 95 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 that are now recognized shall be disclosed.**
105. **For entities that have previously applied IPSAS 17 (2001), 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.**
106. Transitional provisions in IPSAS 17 (2001) provide entities with a period of up to five years to recognize all property, plant and equipment and make the associated measurement and disclosure from the date of its first application. Entities that have previously applied IPSAS 17 (2001) may continue to take advantage of this five-year transitional period from the date of first application of IPSAS 17 (2001). These entities shall also continue to make disclosures required by paragraph 104.

Effective Date

107. **An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after 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.**
108. 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.

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Withdrawal of IPSAS 17 (2001)

109. This Standard supersedes IPSAS 17, “Property, Plant and Equipment” issued in 2001.

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Appendix

Amendments to Other IPSASs

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.

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Implementation Guidance 1 - Frequency of Revaluation of Property, Plant and Equipment

This guidance accompanies, but is not part of, IPSAS 17.

- IG1 Paragraph 44 of IPSAS 17 requires entities that adopt the revaluation model to measure its assets at a revalued amount does not differ significantly from that which would be determined using fair value at the reporting date. Paragraph 49 of IPSAS 17 specifies that the frequency of revaluations depends upon the 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. The purpose of this guidance is to assist entities that adopt the revaluation model to determine whether carrying amounts differ materially from the fair value as at reporting date.
- IG2 An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's fair value and revalues the asset to that amount.
- IG3 In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

- (a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated;
- (b) Where market exists for the assets of the entity, market values are different from their carrying amounts;
- (c) During the period, a price index relevant to the asset has undergone a material change;

Internal sources of information

- (d) Evidence is available of obsolescence or physical damage of an asset;
- (e) Significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful

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life of an asset as finite rather than indefinite. Favourable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and

- (f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

IG4 The list in paragraph IG3 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current fair value as at the reporting date.

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Implementation Guidance 2 – Illustrative Disclosures Examples

This guidance accompanies, but is not part of, IPSAS 17.

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.
- (d) 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.

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- (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.

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Reconciliations

(in '000 of currency units)

	Land		Buildings		Machinery		Furniture and Fixtures	
Reporting Period	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	-	-	250	100	120	200	20	100
Disposals	-	-	150	40	60	80	20	-
Depreciation (As per Statement of Financial Performance)	-	-	160	180	145	135	50	50
Revaluations (net)	250	225	- 30	- 50	-	-	-	-
Closing Balance (As per Statement of Financial Position)	2,500	2,250	2,000	2,090	1,000	1,085	150	200
Sum of Revaluation Surpluses (Paragraph 92(f))	750	500	250	250	-	-	-	-
Sum of Revaluation Deficits (Paragraph 92(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

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)¹ as part of its General Improvements Project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.

BC4. IPSAS 17, issued in December 2001 was based on IAS 16 (Revised 1998), "Investment Property" which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)², actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

¹ The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

² The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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- BC5. The IPSASB reviewed the improved IAS 16 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made with the exception noted in paragraph BC 6. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).
- BC6. IAS 16, "Property, Plant and Equipment" defines recoverable amount as "the higher of an asset's net selling price and its value in use". The proposed IPSAS 17 defines recoverable amount as "the higher of a cash-generating asset's fair value less costs to sell and its value in use". The definition in proposed IPSAS 17 is the same as in IAS 36, "Impairment of Assets" but not IAS 16. The IPSASB is of the view that the definition in IPSAS 17 is appropriate because:
- a. IPSAS 17 requires an entity to determine the recoverable amount or recoverable service amount in accordance with IPSAS 21, "Impairment of Non-Cash-Generating Assets".
 - b. IPSAS 21 requires an entity to apply IAS 36 in determining the recoverable amount of cash-generating assets.
- BC7. IAS 16 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 16 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

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Table of Concordance

This table shows how the contents of the superseded of IPSAS 17 and the current version of IPSAS 17 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

<u>Superseded IPSAS 17 paragraphs</u>	<u>Current IPSAS 17 paragraphs</u>	<u>Superseded IPSAS 17 paragraphs</u>	<u>Current IPSAS 17 paragraphs</u>	<u>Superseded IPSAS 17 paragraphs</u>	<u>Current IPSAS 17 paragraphs</u>
Objective	<u>1</u>	<u>28</u>	<u>33</u>	<u>56</u>	<u>72</u>
<u>1</u>	<u>2</u>	<u>29</u>	<u>36</u>	<u>57</u>	<u>73</u>
<u>2</u>	<u>3</u>	<u>30</u>	<u>41</u>	<u>58</u>	<u>74</u>
<u>3</u>	<u>4</u>	<u>31</u>	<u>None</u>	<u>59</u>	<u>None</u>
<u>4</u>	<u>5</u>	<u>32</u>	<u>None</u>	<u>60</u>	<u>78</u>
<u>5</u>	<u>6</u>	<u>33</u>	<u>None</u>	<u>61</u>	<u>65</u>
<u>6</u>	<u>None</u>	<u>34</u>	<u>None</u>	<u>62</u>	<u>None</u>
<u>7</u>	<u>8</u>	<u>35</u>	<u>None</u>	<u>63</u>	<u>None</u>
<u>8</u>	<u>9</u>	<u>36</u>	<u>None</u>	<u>64</u>	<u>None</u>
<u>9</u>	<u>10</u>	<u>37</u>	<u>None</u>	<u>65</u>	<u>None</u>
<u>10</u>	<u>11</u>	<u>38</u>	<u>43</u>	<u>66</u>	<u>79</u>
<u>11</u>	<u>12</u>	<u>39</u>	<u>44</u>	<u>67</u>	<u>None</u>
<u>12</u>	<u>13</u>	<u>40</u>	<u>45</u>	<u>68</u>	<u>82</u>
<u>13</u>	<u>14</u>	<u>41</u>	<u>46</u>	<u>69</u>	<u>83</u>
<u>14</u>	<u>None</u>	<u>42</u>	<u>47</u>	<u>70</u>	<u>None</u>
<u>15</u>	<u>15</u>	<u>43</u>	<u>48</u>	<u>71</u>	<u>84</u>
<u>16</u>	<u>16</u>	<u>44</u>	<u>49</u>	<u>72</u>	<u>None</u>
<u>17</u>	<u>17</u>	<u>45</u>	<u>50</u>	<u>73</u>	<u>88</u>
<u>18</u>	<u>None</u>	<u>46</u>	<u>51</u>	<u>74</u>	<u>89</u>
<u>19</u>	<u>None</u>	<u>47</u>	<u>52</u>	<u>75</u>	<u>90</u>
<u>20</u>	<u>20</u>	<u>48</u>	<u>53</u>	<u>76</u>	<u>91</u>
<u>21</u>	<u>21</u>	<u>49</u>	<u>54</u>	<u>77</u>	<u>92</u>
<u>22</u>	<u>26</u>	<u>50</u>	<u>55</u>	<u>78</u>	<u>93</u>
<u>23</u>	<u>27</u>	<u>51</u>	<u>56</u>	<u>79</u>	<u>94</u>
<u>24</u>	<u>28</u>	<u>52</u>	<u>57</u>	<u>80</u>	<u>95</u>
<u>25</u>	<u>29</u>	<u>53</u>	<u>58</u>	<u>81</u>	<u>96</u>
<u>26</u>	<u>30</u>	<u>54</u>	<u>66</u>	<u>82</u>	<u>100</u>
<u>27</u>	<u>None</u>	<u>55</u>	<u>None</u>	<u>83</u>	<u>101</u>

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<u>Superseded</u> <u>IPSAS 17</u> <u>paragraphs</u>	<u>Current</u> <u>IPSAS 17</u> <u>paragraphs</u>
<u>84</u>	<u>102</u>
<u>85</u>	<u>103</u>
<u>86</u>	<u>98</u>
<u>87</u>	<u>104</u>
<u>88</u>	<u>107</u>
<u>89</u>	<u>108</u>
<u>None</u>	<u>8</u>
<u>None</u>	<u>18 – 19</u>
<u>None</u>	<u>22 – 25</u>
<u>None</u>	<u>31 – 32</u>
<u>None</u>	<u>34 – 35</u>
<u>None</u>	<u>37 – 40</u>
<u>None</u>	<u>42</u>
<u>None</u>	<u>59 – 64</u>
<u>None</u>	<u>67 – 71</u>
<u>None</u>	<u>75 – 77</u>
<u>None</u>	<u>80 – 81</u>
<u>None</u>	<u>85 – 87</u>
<u>None</u>	<u>97</u>
<u>None</u>	<u>99</u>
<u>None</u>	<u>105 – 106</u>
<u>None</u>	<u>109</u>

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Comparison with IAS 16

International Public Sector Accounting Standard IPSAS 17, “Property, Plant and Equipment” is drawn primarily from International Accounting Standard IAS 16 (2003), “Property, Plant and Equipment”. At the time of issuing this Standard, the IPSASB 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. The main differences between IPSAS 17 and IAS 16 (2003) are as follows:

- 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, where an enterprise adopts the 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 are offset on a class of asset basis.
- 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 accrual accounting in accordance with International Public Sector Accounting Standards. 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”. IAS 16 does not contain these definitions. 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.

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- IPSAS 17 uses different terminology, in certain instances, from IAS 16. The most significant examples are the use of the terms “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 17. The equivalent terms in IAS 16 are “income statement”, “balance sheet” and “equity”.
- IPSAS 17 does not use the term “income”, which in IAS 16 has a broader meaning than the term “revenue”.
- IPSAS 17 contains Implementation Guidance on the frequency of revaluation of property, plant and equipment. IAS 16 does not contain similar guidance.