



**INTERNATIONAL FEDERATION
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**Agenda Item
7**

DATE: June 4, 2007
MEMO TO: Members of the IPSASB
FROM: Juan Zhang
SUBJECT: Improvements Project

OBJECTIVE OF THIS SESSION

To **review and discuss** the proposed changes made to IPSAS 4, 5 and 18

AGENDA MATERIAL

Papers

- 7.1 Background information about the proposed changes to IPSAS 4
- 7.1a Summary of main changes and marked-up IPSAS 4
- 7.2 Background information about the proposed changes to IPSAS 5 and key issues
- 7.2a Summary of main changes and marked-up IPSAS 5
- 7.3 Background information about the proposed changes to IPSAS 18 and key issues
- 7.3a Summary of main changes and revised IPSAS 18

ACTION REQUIRED

The Board is asked to:

- **note** the background information about the IASB's updates on IAS 21, 23 and 14;
- **review** the proposed changes made to IPSAS 4, 5 and 18, and **provide** directions for further amendments; and
- **agree** the proposed timing and process for updating the 3 IPSASs.

BACKGROUND

At its meeting in March 2007, the IPSASB approved a project proposal for continuous improvements of IPSASs and agreed to commence updating the following 3 IPSASs in 2007:

- *IPSAS 4, "The Effects of Changes in Foreign Exchange Rates"*
- *IPSAS 5, "Borrowing Costs"*
- *IPSAS 18, "Segment Reporting"*

It was also agreed that the timing and process for updating individual IPSASs would be determined after reviewing the extent of proposed changes.

Since January 2004, the IASB has issued amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 23 *Borrowing Costs* and IFRS 8 *Operating Segments* (which replaces IAS 14 *Segment Reporting*). Changes made to the 3 standards have resulted in new

differences between them and the related IPSASs. It was noted that the IPSASB did not submit comments on the EDs of these proposed amendments to IAS 21, 23 and the ED of proposed IFRS 8.

Staff has reviewed the IASB's updates on IAS 21, 23 and 14. The preliminary view is that the changes made to IAS 21 and 23 do not raise additional public sector specific issues. Accordingly, staff are proposing that the same changes be made to IPSAS 4 and 5.

However, for segment reporting there are significant and pervasive changes from IAS 14 in IFRS 8 because the IASB has changed not only the underlying approach and requirements in IAS 14 but also the structure and wording (IFRS 8 uses the same wording as US SFAS 131). In addition, existing IPSAS 18 has already departed from IAS 14 in certain aspects. These issues mean that it will be more complicated to identify whether changes from IAS 14 raise any public specific reasons for departure and therefore whether the same changes should be made to IPSAS 18 in order to converge with new IFRS 8.

IMPROVEMENTS POLICY

As a general statement, the "Rules of the Road" project to develop criteria for modifying IFRSs for public sector specific differences will result in parameters for assessing existing standards and making determinations on departures. However, that project is still in process. Therefore the approach used in the General Improvements project completed late in 2006 will be applied to this stage of the project to update existing IPSASs. However, many of the issues raised in this project are useful information for consideration in the Rules of the Road project.

General policy

The IPSASB adopts a policy of developing accrual basis IPSASs converged with IFRSs---the IPSAS maintains the requirements, structure and text of the equivalent IFRS, unless there is a public sector specific reason for departure. Departure from the equivalent IFRS occurs when requirements or terminology in IFRS are 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.

The review of IPSAS 4, 5 and 18 and the proposed amendments have complied with the above policy and have also followed the policy of amending the IPSAS for those changes made to the former IAS, except:

- where the original IPSAS has varied from the provision of the IAS for a public sector specific reason; such variances are retained in this IPSAS and are noted in the Comparison with IFRS/IAS; and
- where the change made to the former IAS raises a new public sector specific reason for departure; such departures are added to this IPSAS and are noted in the Comparison with IFRS/IAS.

Policy on style and structure

In developing the previous improvements project the IPSASB made the decision to adopt the style and structure of the equivalent IASs. The consequential changes to the improved IPSASs included:

- The word “shall” rather than “should” is used for black letter requirements;
- Inclusion of a boxed rubric at the front of each IPSAS. The rubric to an IPSAS identifies the material that constitutes the IPSAS, and the documents that provide the context in which the IPSAS should be read;
- Deletion of unnecessary definitions in certain IPSASs;
- Replacing cross-referencing to IAS/IFRS for which an equivalent IPSAS has not been issued with “the relevant international or national accounting standard dealing with [specific topic]”;
- Describing the effective date of the IPSAS in the same manner as in the equivalent IAS;
- Appendices form part of an IPSAS to which they belong;
- Including Amendments to Other Pronouncements as an appendix to the IPSAS. The appendix identifies amendments to other IPSASs that arise as a consequence of updating the IPSAS;
- Renaming certain non-authoritative Appendices (such as Illustrative Examples) as Implementation Guidance, which accompanies but does not form part of an IPSAS; and
- Including a Basis for Conclusions for each IPSAS, which accompanies but does not form part of an IPSAS. The Basis for Conclusion focuses on the reasons why the IPSASB updated the IPSAS and why the IPSASB decided that certain requirements in the IPSAS should depart from the equivalent IAS.

These style and structure changes have already been made to IPSAS 4 as part of the General Improvements project. Current proposed amendments to existing IPSAS 5 and 18 include these changes. Staff has not yet drafted the Basis for Conclusions for IPSAS 5 and 18, which will be added when the IPSASB completes its deliberations on the proposed changes. In addition, the revisions to IPSAS 18 have reflected some new changes in style and structure arising from IFRS 8 (see key issues in agenda paper 7.3).

TIMING AND PROCESS FOR UPDATING THE 3 IPSASs

Issues

- 1) *Whether to issue an omnibus ED of the proposed amendments to the 3 IPSASs or individual ED of the proposed amendments to each IPSAS*

Issuing an omnibus ED was the approach taken for the previous General Improvements project. However, it was not very popular with constituents. Many constituents who would normally have responded did not because the document was too long. Staff therefore proposes to issue individual EDs when they are approved by the IPSASB. This means that individual EDs can be issued as ready and will allow respondents to comment separately on each ED.

- 2) *Whether the ED should present a revised copy of the full text of the IPSAS or only those paragraphs of the IPSAS that have been changed*

Staff is of the view that for ease of review of constituents a revised copy of the full text of the IPSAS should be presented in the ED, even if the changes made to the IPSAS are not extensive. When the IPSASB approves each ED, it will need to consider whether the full text should be presented as a marked-up version or a clean version.

Timetable

Based on the extent of changes and the analysis of above issues, a timetable for updating the 3 IPSASs is proposed as follows:

Timing	Milestones/Actions
July 2007	<ul style="list-style-type: none"> Proposed changes to IPSAS 4 and 5 discussed Key proposals on updating IPSAS 18 confirmed
August-October 2007	<ul style="list-style-type: none"> Draft ED of proposed amendments to IPSAS 4 and Draft ED of proposed amendments to IPSAS 5 prepared for approval Further revised IPSAS 18 prepared for review
November 2007	<ul style="list-style-type: none"> 2 EDs of proposed amendments to IPSAS 4 and 5 approved Revision to IPSAS 18 discussed
December 2007	2 EDs of proposed amendments to IPSAS 4 and 5 issued for public comment (anticipated comments due by April 30, 2008)
December 2007-February 2008	Draft ED of revised IPSAS 18 prepared for approval
March 2008	ED of revised IPSAS 18 approved
April 2008	ED of revised IPSAS 18 issued for public comment (anticipated comments due by August 31, 2008)
May-June 2008	Responses to 2 EDs summarized and final amendments to IPSAS 4 and 5 prepared for review
July 2008	Final amendments to IPSAS 4 and 5 approved
August 2008	Final amendments to IPSAS 4 and 5 issued
September-October 2008	Responses to ED of revised IPSAS 18 summarized and final revised IPSAS 18 prepared for review
November 2008	Final revised IPSAS 18 approved
December 2008	Final revised IPSAS 18 issued

DISCUSSION PROCESS AT THIS MEETING

At this meeting, staff proposes that the IPSASB review and discuss the changes to IPSASs in the following sequence:

- *IPSAS 4, "The Effects of Changes in Foreign Exchange Rates"*
- *IPSAS 5, "Borrowing Costs"*
- *IPSAS 18, "Segment Reporting"*

Consideration of the proposed timetable is suggested after review of all these changes.

Juan Zhang
TECHNICAL MANAGER

The Effects of Changes in Foreign Exchange Rates

This agenda paper includes:

- Background information about the updates on IAS 21; and
- A brief overview of the major changes to IPSAS 4 affected by the updates on IAS 21.

Background Information about the Updates on IAS 21

The Effects of Changes in Foreign Exchange Rates

In December 2003, as part of its Improvements project, the IASB issued a revised IAS 21 *The Effects of Changes in Foreign Exchange Rates*. After that, constituents raised some concerns about the requirements in IAS 21(2003) for dealing with exchange differences arising on a monetary item that forms part of the reporting entity's net investment in a foreign operation.

The relevant requirements in IAS 21(2003)

Paragraph 32 specified that exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation be recognized initially in a separate component of equity in the financial statements that include the foreign operation and the reporting entity. Paragraph 33 provided further guidance on this principle. When the monetary item is denominated in the functional currency of the reporting entity or the foreign operation, such exchange differences are initially recognized in a separate component of equity in the financial statements that include the foreign operation and the reporting entity. When the monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, such exchange differences are recognized in profit or loss in the financial statements that include the foreign operation and the reporting entity..

Constituent's concerns about the above requirements

Constituents expressed a number of concerns about the requirements in IAS 21:

- It is common practice for a monetary item that forms part of an entity's investment in a foreign operation to be denominated in a currency that is not the functional currency of either the reporting entity or the foreign operation. An example is a monetary item denominated in a currency that is more readily convertible than the local domestic currency of the foreign operation.
- An investment in a foreign operation, denominated in a currency that is not the functional currency of the reporting entity or the foreign operation, does not expose the group to a greater foreign currency exchange difference than arises when the investment is denominated in the functional currency of the reporting entity or the foreign operation. It simply results in exchange differences arising in the foreign operation's individual financial statements and the reporting entity's separate financial statements.

- It is not clear whether the term ‘reporting entity’ in paragraph 32 should be interpreted as the single entity or the group comprising a parent and all its subsidiaries. As a result, constituents questioned whether the monetary item must be transacted between the foreign operation and the reporting entity, or whether it could be transacted between the foreign operation and any member of the consolidated group, i.e. the reporting entity or any of its subsidiaries.

The IASB’s considerations and updates on IAS 21 (2003)

The IASB noted that the nature of the monetary item referred to in paragraph 15 is similar to an equity investment in a foreign operation, i.e. settlement of the monetary item is neither planned nor likely to occur in the foreseeable future. Therefore, the principle in paragraph 32 to recognize exchange differences arising on a monetary item initially in a separate component of equity effectively results in the monetary item being accounted for in the same way as an equity investment in the foreign operation when consolidated financial statements are prepared. The IASB concluded that the accounting treatment in the consolidated financial statements should not be dependent on the currency in which the monetary item is denominated, nor on which entity within the group conducts the transaction with the foreign operation.

Accordingly, in December 2005, the IASB issued an amendment to IAS 21 (published as *Net Investment in a Foreign Operation*). The amendment requires exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation to be recognized initially in a separate component of equity in the financial statements that include the foreign operation and the reporting entity. This requirement applies irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries.

Overview of Main Changes in IPSAS 4 Affected by the Updates on IAS 21

The information in the table summarizes major changes in IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” affected by the updates on IAS 21 in December 2005. It identifies whether the changes are a new requirement, changes in existing requirements, further clarification of matters already dealt with (or implied) in the existing IPSAS or other changes.

Changes made in revised IPSAS 4 to converge with updated IAS 21	Classification of changes
1) Clarify that an entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 18 may be any controlled entity of the economic entity.	Further clarification
2) Require that when a monetary item forms part of a reporting entity’s net investment in a foreign operation and is denominated in a currency other	Change in requirement

than the functional currency of either the reporting entity or the foreign operation, exchange differences arising on this monetary item are recognized initially in <u>a separate component of equity</u> in the financial statements that include the foreign operation and the reporting entity.	
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Attached as Item 7.1A is a marked version of IPSAS 4, including a summary of major changes being proposed. Commentary on various proposals has been included to assist the IPSASB in understanding the rationale for staff proposals.

SUMMARY OF MAIN CHANGES TO IPSAS 4

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

The main changes proposed are:

Net Investment in a Foreign Operation

- To clarify in paragraph 19 that an entity that has a monetary item, which is, in substance, a part of the entity's net investment in a foreign operation, may be any controlled entity of the economic entity. An example is also provided to illustrate this clarification. Previously, IPSAS 4 did not make this clear.

Recognition of Exchange Differences

- To require in paragraph 38 that exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognized initially in a separate component of equity in the financial statements that include the foreign operation and the reporting entity, irrespective of whether the monetary item is denominated in the functional currency of the reporting entity, or in the functional currency of the foreign operation, or in a currency other than the functional currency of either the reporting entity or the foreign operation. Previously, IPSAS 4 required such exchange differences to be recognized in surplus or deficit in the financial statements including the foreign operation and the reporting entity when the monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation.

Other Changes

- To amend the Introduction and the Basis for Conclusions as a result of the amendments to this standard.
- To make minor editorial changes to improve the style.

IPSAS 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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International Public Sector Accounting Standard 4, “The Effects of Changes in Foreign Exchange Rates” (IPSAS 4) is set out in paragraphs 1-~~74-73~~and the ~~Appendix~~. All the paragraphs have equal authority. IPSAS 4 should be read in the context of its objective, ~~and~~ the Basis for Conclusions~~-(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) 4, “The Effects of Changes in Foreign Exchange Rates,” replaces IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” (issued ~~May–December 2000~~2006), and should be applied for annual reporting periods beginning on or after ~~January 1, 2008~~MM DD, YYYY. Earlier application is encouraged.

Reasons for Revising IPSAS 4

- IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 4 as a response to the International Accounting Standards Board’s amendment to IAS 21 (published as *Net Investment in a Foreign Operation*) In December 2005 ~~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 4, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 21, “The Effects of Changes in Foreign Exchange Rates” made as a consequence of the IASB’s improvements amendments in December 2005project, except where the original IPSAS had varied from the provisions of IAS 21 for a public sector specific reason; such variances are retained in this IPSAS 4 and are noted in the Comparison with IAS 21. ~~Any changes to IAS 21 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 4.~~

Changes from Previous Requirements

- IN4. The main changes from the previous version of IPSAS 4 are described below.

Scope

~~IN5. The Standard now excludes foreign currency derivatives that are within the scope of international or national accounting standards that address the recognition and measurement of financial instruments. (Hedge accounting that was previously excluded in IPSAS 4 will remain excluded in IPSAS 4.)~~

Definitions

~~IN6. The notion of “reporting currency” has been replaced with two notions:~~

- ~~• Functional currency—currency of the primary economic environment in which the entity operates~~
- ~~• Presentation currency—currency in which the financial statements are presented~~

~~IN7. The definitions of: “exchange difference”, “foreign currency”, and “net investment in a foreign operation” have been modified.~~

Functional Currency

~~IN8. When a reporting entity prepares financial statements, the Standard requires each individual entity included in the reporting entity—whether it is a stand alone entity, an entity with foreign operations (such as a controlling entity) or a foreign operation (such as a controlled entity)—to determine its functional currency and measure its financial performance and financial position in that currency.~~

~~IN9. As a result of these changes:~~

- ~~•An entity (whether a stand-alone entity or a foreign operation) does not have a free choice of functional currency; and~~
- ~~•An entity cannot avoid restatement in accordance with IPSAS 10, “Financial Reporting in Hyperinflationary Economies” by, for example, adopting a stable currency (such as the functional currency of its controlling entity) as its functional currency.~~

~~IN10.The Standard requires an entity to disclose:~~

- ~~•Its functional currency when the functional currency is different from its presentation currency and to clarify why a different presentation currency has been adopted.~~
- ~~•When there has been a change in functional currency, and the reasons for the change.~~

~~IN11.The Standard replaces the previous requirement to account for a change in the classification of a foreign operation with a requirement that a change in functional currency is accounted for prospectively.~~

Integral Foreign Operations vs. Foreign Entities

~~IN12.The Standard eliminates the distinction between integral foreign operations and foreign entities. Consequently an entity that was previously classified as an integral foreign operation will have the same functional currency as the reporting entity and only one translation method is used.~~

Reporting Foreign Currency Transactions in the Functional Currency – Recognition of Exchange Differences

~~IN13.The Standard removes the previous allowed alternative treatment where an entity could capitalize exchange differences resulting from a severe devaluation or depreciation of a currency against which there is no means of hedging. This Standard requires that such exchange differences, where applicable, be reflected in the surplus or deficit.~~

Use of a Presentation Currency other than the Functional Currency

~~IN14.The Standard clarifies that an entity is permitted to present its financial statements in any currency (or currencies).~~

~~IN15.The Standard requires that goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity only be treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Previously, an entity was also allowed to treat these types of goodwill and fair value adjustments as assets and liabilities of the reporting entity.~~

Disclosure

~~IN16.The Standard requires that when the entity discloses financial information where the presentation currency is not its functional currency and the translation method does not comply with each applicable IPSAS, the entity shall:~~

- ~~•clearly identify the information as supplementary information to distinguish it from other information that complies with IPSASs;~~
- ~~•disclose the currency in which supplementary information is displayed; and~~
- ~~•disclose the entity’s functional currency and the method of translation used to determine the supplementary information.~~

Transitional Provisions

~~IN17. The Standard allows first-time adopters of IPSASs to deem the cumulative translation differences that existed at the date they first adopt IPSASs as zero.~~

~~IN18. The Standard provides a new transitional provision for those entities which previously applied the eliminated alternative treatment for goodwill and fair value adjustments arising on the acquisition of a foreign operation. An entity, on first application of this Standard, is allowed to apply prospectively these types of goodwill and fair value adjustments in accordance to the new requirements in this Standard. (Retrospective application is allowed.)~~

Net Investment in a Foreign Operation

~~IN5. The standard clarifies that an entity that has a monetary item, which is, in substance, a part of the entity's net investment in a foreign operation, may be any controlled entity of the economic entity.~~

Recognition of Exchange Differences

~~IN6. The standard requires that when a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, exchange differences arising on this monetary item are recognized initially in a separate component of equity in the financial statements that include the foreign operation and the reporting entity. Previously, such exchange differences were required to be recognized in surplus or deficit in the financial statements including the foreign operation and the reporting entity.~~

Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.
2. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:**

Staff proposes to replace the term “results” with “financial performance” in order to keep consistency with other IPSASs. This change affects Paras 3,21,22,43,44,48,50, 51 and 59.

- (a) **in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of the relevant international or national accounting standards dealing with the recognition and measurement of financial instruments;**
 - (b) **in translating the ~~results~~ financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or by the equity method; and**
 - (c) **in translating an entity’s financial performance ~~results~~ and financial position into a presentation currency.**
4. International or national accounting standards dealing with the recognition and measurement of financial instruments apply to many foreign currency derivatives and, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of these international or national accounting standards (e.g. some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.
 5. This Standard does not apply to hedge accounting for foreign currency items including the hedging of a net investment in a foreign operation. Accordingly, entities may apply the relevant international or national accounting standards dealing with hedge accounting.
 6. **This Standard applies to all public sector entities other than Government Business Enterprises.**
 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) which are issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”
 8. This Standard applies to the presentation of an entity’s financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with International Public Sector Accounting Standards. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.

Editorial
change

9. This Standard applies to the presentation of revenue and expenses arising from transactions in a foreign currency and translating the financial statements of a foreign operation. It does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see ~~International Public Sector Accounting Standard~~ IPSAS 2, “Cash Flow Statements”).

Definitions

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

Closing rate is the spot exchange rate at the reporting date.

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

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

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.

Foreign currency is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a controlled entity, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

Monetary items are units of currency held and assets and liabilities to be received or paid in fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets/equity of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

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.

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:
- (a) the currency:
 - (i) that revenue is raised from, such as taxes, grants, and fines;

- (ii) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
 - (iii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
 - (b) the currency that mainly influences labor, material and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled).
12. The following factors may also provide evidence of an entity's functional currency:
- (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated.
 - (b) the currency in which receipts from operating activities are usually retained.
13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate or joint venture):
- (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when a department of defense has a number of overseas bases which conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a public university which operates under the management and direction of the domestic campus. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incurs expenses, generates revenue and perhaps arranges borrowings, all substantially in its local currency. Some examples of government-owned foreign operations which may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards and broadcasting operations. Such entities may be established as Government Business Enterprises.
 - (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.
 - (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
 - (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.
14. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 11 before considering the indicators in paragraphs 12 and 13,

which are designed to provide additional supporting evidence to determine an entity's functional currency.

15. An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.
16. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IPSAS 10, "Financial Reporting in Hyperinflationary Economies." An entity cannot avoid restatement in accordance with IPSAS 10 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its controlling entity).

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognized as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g., prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

Net Investment in a Foreign Operation

18. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs ~~3736~~ and ~~3837~~. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

This Para is drawn from Para 5A of IAS 21.

19. The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 18 may be any controlled entity of the economic entity. For example, an entity has two controlled entities, A and B. Controlled entity B is a foreign operation. Controlled entity A grants a loan to controlled entity B. Controlled entity A's loan receivable from controlled entity B would be part of the controlled entity A's net investment in controlled entity B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if controlled entity A were itself a foreign operation.

Summary of the Approach Required by this Standard

- ~~19.20.~~ In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a controlling entity) or a foreign operation (such as a controlled entity or branch)—determines its functional currency in accordance with paragraphs 11-16. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs ~~2322~~ –~~4241~~ and ~~5958~~.

20.21. Many reporting entities comprise a number of individual entities (e.g. an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint ventures. They may also have branches. It is necessary for the financial performance results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The financial performance results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 4342-5958.

21.22. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 6, "Consolidated and Separate Financial Statements" to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance results and financial position are also translated into the presentation currency in accordance with paragraphs 4342-5958.

Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

22.23. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

- (a) buys or sells goods or services whose price is denominated in a foreign currency;
- (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
- (c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

23.24. **A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.**

24.25. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with International Public Sector Accounting Standards. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

25.26. Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in IPSAS 2. Although these changes are not cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing and financing activities and include the differences, if any, had those cash flows been reported at end-of-period exchange rates.

Reporting at Subsequent Reporting Dates

26.27. At each reporting date:

- (a) **foreign currency monetary items shall be translated using the closing rate;**
- (b) **non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and**
- (c) **non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.**

27.28. The carrying amount of an item is determined in conjunction with other relevant International Public Sector Accounting Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with IPSAS 17, "Property, Plant and Equipment." Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.

28.29. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realizable value in accordance with IPSAS 12, "Inventories." Similarly, in accordance with IPSAS 21, "Impairment of Non-Cash-Generating Assets," the carrying amount of a non-cash generating asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

- (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e., the rate at the date of the transaction for an item measured in terms of historical cost); and
- (b) the net realizable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g., the closing rate at the reporting date).

Add to the
omitted words by
reference to Para
25(b) of IAS 21

The effect of this comparison may be that an impairment loss is recognized in the functional currency but would not be recognized in the foreign currency, or vice versa.

29.30. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

30.31. As noted in paragraph 5, this Standard does not deal with hedge accounting for foreign currency items. Guidance in relation to other aspects of hedge accounting, including the criteria to use hedge accounting, can be found in the relevant international or national accounting standards dealing with the measurement and recognition of financial instruments.

31.32. **Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were**

translated on initial recognition during the period or in previous financial statements shall be recognized in surplus or deficit in the period in which they arise, except as described in paragraph ~~37~~³⁶.

~~32.33.~~ When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each period up to the date of settlement is determined by the change in exchange rates during each period.

~~33.34.~~ The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph ~~26~~²⁵.

~~34.35.~~ When a gain or loss on a non-monetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit.

~~35.36.~~ Other Standards require some gains and losses to be recognized directly in net assets/equity. For example, IPSAS 17 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph ~~27~~²⁶(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

~~36.37.~~ Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 18) shall be recognized in surplus or deficit in the separate financial statements of the reporting entity or the individual financial statements of the ~~of the~~ foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a controlled entity), such exchange differences shall be recognized initially in a separate component of net assets/equity and recognized in surplus or deficit on disposal of the net investment in accordance with paragraph 57.

Editorial
change

~~37.38.~~ When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph ~~32~~³¹. ~~Similarly, if~~ such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph ~~32~~³¹. ~~If s~~Such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange differences arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 31. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (i.e. financial statements in which the foreign operation is consolidated, proportionally consolidated or accounted for using the equity method). ~~However, a monetary item that forms part of the reporting entity's net investment in a foreign operation may be denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. The exchange~~

Change this
Para in
accordance with
Para 33 of IAS
21

~~differences that arise on translating the monetary item into the functional currencies of the reporting entity and the foreign operation are not reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (i.e. they remain recognized in surplus or deficit).~~

~~38.39.~~ When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs ~~2322-3029~~. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in Functional Currency

~~39.40.~~ When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

~~40.41.~~ As noted in paragraph 15, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices or the provision of goods and services may lead to a change in an entity's functional currency.

~~41.42.~~ The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs ~~3736~~ and ~~4443~~(c) are not recognized in surplus or deficit until the disposal of the operation.

Use of a Presentation Currency other than the Functional Currency

Translation to the Presentation Currency

~~42.43.~~ An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its ~~financial performance results~~ and financial position into the presentation currency. For example, when an economic entity contains individual entities with different functional currencies, the ~~financial performance results~~ and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

~~43.44.~~ The ~~financial performance results~~ and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

- (a) assets and liabilities for each statement of financial position presented (i.e., including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

- (b) **revenue and expenses for each statement of financial performance (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and**
- (c) **all resulting exchange differences shall be recognized as a separate component of net assets/equity.**

44.45. In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation in its cash flow statement, the reporting entity shall comply with the procedures in IPSAS 2. IPSAS 2 requires that the cash flows of a controlled entity which satisfies the definition of a foreign operation shall be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the cash flows. IPSAS 2 also outlines the presentation of unrealized gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.

45.46. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

46.47. The exchange differences referred to in paragraph **44.43(c)** result from:

- (a) translating revenue and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognized in surplus or deficit and on those recognized directly in net assets/equity.
- (b) translating the opening net assets/equity at a closing rate that differs from the previous closing rate.

These exchange differences are not recognized in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly-owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognized as part of, minority interest in the consolidated statement of financial position.

47.48. The **financial performance results** and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

- (a) **all amounts (i.e., assets, liabilities, net assets/equity items, revenue and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that**
- (b) **when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e., not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**

48.49. When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IPSAS 10, **"Financial Reporting in Hyperinflationary Economies"** before applying the translation method set out in paragraph **48.47**, except for comparative amounts that are translated into a currency of a non-

hyperinflationary economy (see paragraph **4847**(b). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IPSAS 10, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.

Translation of a Foreign Operation

49.50. Paragraphs **5150-5655**, in addition to paragraphs **4342-4948**, apply when the **financial performance results** and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, proportional consolidation or the equity method.

50.51. The incorporation of the **financial performance results** and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 6 and ~~International Public Sector Accounting Standard (IPSAS)~~ 8, "Interests in Joint Ventures").

51.52. However, a monetary asset (or liability) within an economic entity, whether short-term or long-term, cannot be eliminated against the corresponding liability (or asset) within an economic entity without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference continues to be recognized in surplus or deficit or, if it arises from the circumstances described in paragraph **3736**, it is classified as net assets/equity until the disposal of the foreign operation.

52.53. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, IPSAS 6 allows the use of a different reporting date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates.

53.54. When there is a difference between the reporting date of the reporting entity and the foreign operation, the assets and liabilities of the foreign operation are translated at the exchange rate at the reporting date of the foreign operation.

54.55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 6. The same approach is used in applying the equity method to associates and joint ventures and in applying proportionate consolidation in joint ventures in accordance with IPSAS 7, "Investments in Associates" and IPSAS 8.

55.56. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs **4443** and **4847**.

Disposal of a Foreign Operation

56.57. On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of net assets/equity relating to that foreign operation shall be recognized in surplus or deficit when the gain or loss on disposal is recognized.

57.58. An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital or abandonment of all, or part of, that entity. The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss. A write-down of the carrying amount of a foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a write-down.

Tax Effects of Exchange Differences

58.59. For reporting entities subject to income taxes, guidance on the treatment of tax effects associated with the gains and losses on foreign currency transactions and exchange differences arising on translating the financial performance results and financial position of an entity (including a foreign operation) into a different currency can be found in the relevant international or national accounting standards dealing with income taxes.

Disclosure

59.60. In paragraphs 62.61 and 64.63-66.65 references to “functional currency” apply, in the case of an economic entity, to the functional currency of the controlling entity.

60.61. The entity shall disclose:

- (a) the amount of exchange differences recognized in surplus or deficit except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with the relevant international or national accounting standards dealing with the recognition and measurement of financial instruments; and**
- (b) net exchange differences classified in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**

61.62. When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.

62.63. When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.

63.64. When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with International Public Sector Accounting Standards only if they comply with all the requirements of each applicable Standard including the translation method set out in paragraphs 44.43 and 48.47.

64.65. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 64.63. For example, an entity may convert into another

currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with International Public Sector Accounting Standards and the disclosures set out in paragraph ~~6665~~ are required.

~~65-66.~~ **When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph ~~6463~~ are not met, it shall:**

- (a) **clearly identify the information as supplementary information to distinguish it from the information that complies with International Public Sector Accounting Standards;**
- (b) **disclose the currency in which the supplementary information is displayed; and**
- (c) **disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

Transitional Provisions

Initial Adoption of Accrual Accounting

~~66-67.~~ **A reporting entity need not comply with the requirements for cumulative translation differences that existed at the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. If a first-time adopter uses this exemption:**

- (a) **the cumulative translation differences for all foreign operations are deemed to be zero at the date of first adoption to International Public Sector Accounting Standards; and**
- (b) **the gain and loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of first adoption to International Public Sector Accounting Standards, and shall include later translation differences.**

~~67-68.~~ **This Standard requires entities to:**

- (a) **classify some translation differences as a separate component of net assets/equity; and**
- (b) **on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation to the statement of financial performance as part of the gain or loss on disposal.**

The transitional provisions provide first-time adopters of IPSASs with relief from this requirement.

Transitional Provisions for All Entities

~~68-69.~~ **An entity shall apply paragraph ~~5655~~ prospectively to all acquisitions occurring after the beginning of the financial reporting period in which this International Public Sector Accounting Standard is first applied. Retrospective application of paragraph ~~5655~~ to earlier acquisitions is permitted. For an acquisition of a foreign operation treated prospectively but which occurred before the date on which this Standard is first applied, the entity shall not**

restate prior years and accordingly may, when appropriate, treat goodwill and fair value adjustments arising on that acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

~~69.70.~~ All other changes resulting from the application of this International Public Sector Accounting Standard shall be accounted for in accordance with the requirements of IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors".

Effective Date

~~70.71.~~ An entity shall apply this International Public Sector Accounting Standard for annual 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.

~~71.72.~~ 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 4 (issued ~~2000~~2006)

~~72.73.~~ This Standard supersedes IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" issued in ~~2000~~2006.

Appendix

Amendments to Other Pronouncements

The current proposed amendments to IPSAS 4 do not impact other IPSASs

~~The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after January 1, 2008. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.~~

~~A1. In IPSAS 2, "Cash Flow Statements," paragraphs 36 and 37 are amended to read as follows:~~

~~36. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.~~

~~37. The cash flows of a foreign controlled entity shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.~~

~~A2. IPSAS 10, "Financial Reporting in Hyperinflationary Economies" is amended as described below:~~

~~Paragraph 1 is amended to read as follows:~~

~~1. An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to the individual financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.~~

~~Paragraph 11 is amended to read as follows:~~

~~11. The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the reporting date. The corresponding figures for the previous period required by International Public Sector Accounting Standard IPSAS 1, "Presentation of Financial Statements," and any information in respect of earlier periods, shall also be stated in terms of the measuring unit current at the reporting date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of International Public Sector Accounting Standard IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" apply.~~

~~Paragraph 20 is amended to read as follows:~~

~~20. A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Standard. In these circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.~~

~~Paragraph 26 is deleted.~~

~~Paragraph 33 is amended to read as follows:~~

~~33. Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of~~

~~presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” apply.~~

~~Paragraph 38 is amended to read as follows:~~

~~38. The following disclosures shall be made:~~

- ~~(a) the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and...~~

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 4, “The Effects of Changes in Foreign Exchange Rates.” This Basis for Conclusions only notes the IPSASB’s reasons for departing from provisions of the related International Accounting Standard.

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 are 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. The Comparison with IAS 21 references the December 2005³ version of IAS 21 and not any other.

~~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. BC3. IPSAS 4, issued in January–December 2000–2006 was based on IAS 21 (Revised 1993²⁰⁰³), “The Effects of Changes in Foreign Exchange Rates”, which was reissued in December 2003. In December 2005 the IASB issued an amendment to IAS 21 (published as *Net Investment in a Foreign Operation*). In late 2003, the IPSASB’s predecessor, the Public Sector Committee (PSC)², actioned an IPSAS Improvements Project to converge where appropriate IPSASs with the improved IASs issued in December 2003.~~

~~BC4. In early 2007, the IPSASB initiated a continuous improvements project to update existing IPSASs to be converged with the latest related IFRSs to the extent appropriate for the public sector. As part of the project, the IPSASB reviewed the IASB’s amendment to IAS 21 issued in December 2005 and generally concurred with the IASB’s reasons for amending the IAS and with the amendments made. (The IASB’s Basis for Conclusions as a result of the amendments is not reproduced here. Subscribers to the IASB’s *Comprehensive Subscription Service* can view the Basis for Conclusions on the IASB’s website at www.iasb.org).~~

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 21 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 at www.iasb.org).~~

BC5. IAS 21 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 4 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.

Comparison with IAS 21

International Public Sector Accounting Standard IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” is drawn primarily from International Accounting Standard IAS 21, “The Effects of Changes in Foreign Exchange Rates” (~~2003~~2005). The main differences between IPSAS 4 and IAS 21 are as follows:

- Commentary additional to that in IAS 21 has been included in IPSAS 4 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 4 uses different terminology, in certain instances, from IAS 21. 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 4. The equivalent terms in IAS 21 are “income,” “income statement,” “balance sheet” and “equity.”
- IPSAS 4 contains a different set of definitions of technical terms from IAS 21 (paragraph 10).
- IPSAS 4 contains an additional transitional provision allowing an entity, when first adopting IPSASs to deem cumulative translation differences existing at the date of first adoption of accrual IPSASs as zero (paragraph 67). This transitional provision is adapted from IFRS 1, “First-time Adoption of International Financial Reporting Standards.”

Borrowing Costs

This agenda paper includes:

- Background information about the updates on IAS 23;
- A brief overview of the major changes to IPSAS 5 affected by the updates on IAS 23; and
- Key issues on updating IPSAS 5.

Background Information about the Updates on IAS 23

In March 2007, the IASB issued revised IAS 23 *Borrowing Costs* that superseded IAS 23 (revised in 1993). The IASB's revisions to IAS 23 (1993) resulted from its Short-term Convergence project being conducted jointly with the Financial Accounting Standards Board (FASB) in the United States. The objective of the project is to reduce differences between IFRSs and US Generally Accepted Accounting Principles (GAAP) that are capable of resolution in a relatively short time and can be addressed outside major projects.

The revisions to IAS 23 (1993) were principally concerned with the elimination of one of the two treatments that existed for borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The IASB eliminated the option of immediate recognition of such borrowing costs as an expense with the goal of improving financial reporting as well as enhancing convergence in principle with US GAAP.

The main changes made to IAS 23 (1993) and the IASB's related considerations are summarized as follows:

Inclusion of additional scope exclusion

The revised IAS 23 does not require capitalization of borrowing costs relating to assets that are measured at fair value or inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

The IASB's considerations:

- The measurement of assets measured at fair value will not be affected by the amount of borrowing costs incurred during their construction or production period.
- It is acknowledged that there is difficulty in both allocating borrowing costs to inventories that are manufactured in large quantities on a repetitive basis and monitoring those borrowing costs until the inventory is sold. An entity should not be required to capitalize borrowing costs on such inventories because the costs of capitalization are likely to exceed the potential benefits. This scope exclusion is also consistent with FASB Statement No.34 *Capitalization of Interest Cost* (SFAS 34).

Elimination of the option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset

IAS 23 (1993) permitted two treatments for accounting for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. They could be capitalized or, alternatively, recognized immediately as an expense. SFAS 34 requires the capitalization of such borrowing costs.

The IASB proposed in the ED to eliminate the option of immediate recognition as an expense of such borrowing costs. Many respondents disagreed with the Board's proposal in the ED for a variety of reasons. The main concerns were that the costs of implementing the capitalization model would be burdensome and that the proposal might not result in benefits for users of financial statements.

The IASB decided eventually to maintain the proposal in the ED as it believed that:

- the cost of a asset should include all costs necessarily incurred to get the asset ready for its intended use or sale, including the cost incurred in financing the expenditures for acquisition, construction or production of a qualifying asset. Recognizing borrowing costs relating to qualifying assets immediately as an expense does not give a faithful representation of the cost of the asset.
- the removal of a choice of accounting treatment will enhance comparability----it achieves comparability among all non-equity financed assets and it also improves comparability between assets internally developed and those acquired from third parties.
- the additional benefits in terms of higher comparability, improvements in financial reporting and achieving convergence in principle with US GAAP exceed any additional costs of implementation. Achieving convergence in principle with US GAAP on this topic is a milestone in the Memorandum of Understanding published by the FASB and IASB in February 2006, which is a step towards removal of the requirement imposed on foreign registrants with the SEC to reconcile their financial statements to US GAAP.

Effective date and transition

IAS 23 (1993) specified that when application of the standard constitutes a change in accounting policy an entity is generally encouraged to retrospectively adjust its financial statements and is alternatively permitted to prospectively apply the standard.

The revised IAS 23 requires prospective application and permits an entity to apply the revised standard from any designated date before the effective date. The IASB's considerations were:

- Development of a qualifying asset may take a long time. Additionally, some assets currently in use may have undergone and completed their production or construction process many years ago. If the entity has been following the accounting policy of immediately recognizing borrowing costs as an expense, the costs of gathering the

information required to capitalize them retrospectively and to adjust the carrying amount of the asset may exceed the potential benefits.

- Given that the revised standard will result in more useful and comparable information, an entity is permitted to apply it from any designated date before the effective date. However, if an entity applies the Standard from such an earlier date, it should apply the Standard to all qualifying assets for which the commencement date for capitalization is on or after that designated date.

Overview of Main Changes in IPSAS 5 Affected by the Updates on IAS 23

The information in the table summarizes major changes in IPSAS 5, “Borrowing Costs” affected by the updates on equivalent IAS 23 in March 2007. It identifies whether the changes are a new requirement, changes in existing requirements, further clarification of matters already dealt with (or implied) in the existing IPSAS or other changes. In some cases determining how to classify the change is a matter of judgment.

Changes made in revised IPSAS 5 to converge with updated IAS 23	Classification of changes
1) Replace the “objective” section with “core principle” section, number this section as part of the standard and change this section from plain type to bold type.	Change in requirement/structure
2) Exclude from its scope borrowing costs directly attributable to the acquisition, construction or production of: (a) a qualifying asset measured at fair value; or (b) inventories that are produced, in large quantities on a repetitive basis.	New requirement
3) Include additional examples of “intangible assets” and “investment properties” to illustrate the term “qualifying assets” and clarify that <u>financial assets</u> , and <u>inventories</u> that are produced over a short period of time are not qualifying assets.	Further clarification/Change in requirement
4) Eliminate the option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. An entity is now required to capitalize such borrowing costs as part of the cost of that qualifying asset.	Change in requirement
5) Clarify that when an entity applies IPSAS 10, “Financial Reporting in Hyperinflationary Economies” it recognizes as an expense the part of borrowing costs that compensates for inflation	Further clarification

during the same period in accordance with paragraph 24 of that Standard.	
6) Remove the requirement for disclosure of the accounting policy adopted for borrowing costs.	Change in requirement
7) Require an entity to apply this standard to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the effective date when application of the standard constitutes a change in accounting policy.	Change in requirement
8) Include a transitional provision that an entity may designate any date before the effective date and apply the standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date.	New requirement/Further clarification
9) Change editorially paragraph 14, 16, 22, 25-27 and 29	Change editorially

KEY ISSUES ON UPDATING IPSAS 5

Changes not resulting from the IASB's revision to IAS 23

There are certain words/terms in IPSAS 5 that may no longer be deemed appropriate from the current perspective, such as:

- “outlays” in a number of paragraphs which may need to be replaced with “expenditures”;
- “recoverable amount” in previous paragraph 30 after which “(or recoverable service amount)” may need to be added; and
- “international and/or national accounting standards” in the same paragraph, which may need to be replaced with “International Public Sector Accounting Standards”.

In staff's view, although these changes do not reflect changes made to IAS 23, they should be included in the package of improvements to IPSAS 5. Staff has marked-up these changes, together with a boxed text under each related paragraph to explain the reasons for changes (see agenda paper 7.2A).

Inclusion of an Amendment to Guidance on Other IPSASs

The revised IAS 23 contains an appendix “Amendments to other pronouncements” which sets out the amendments to other IFRSs/IASs and IFRICs. This appendix is authoritative,

with an effective date for it. Apart from that, the revised IAS 23 is accompanied by an “Amendments to Guidance on Other Pronouncements” which is not part of the standard and for which there is not an effective date. The heading of the “Amendments to Guidance on Other Pronouncements” is as follows:

“The following amendments to guidance on other pronouncements are necessary in order to ensure consistency with the revised IAS 23. In the amended paragraph, new text is underlined and deleted text is struck through”.

Should IPSAS 5 include an “Amendments to Guidance on Other IPSASs” in the same way as IAS 23?

It is noted that the amendments to guidance on other IPSASs as a consequence of an updated or new IPSAS are now included in the “Amendments to Other Pronouncements” as an appendix to the IPSAS. For example, the appendix “Amendments to Other Pronouncements” (authoritative with an effective date for it) to IPSAS 3 includes the amendments to the illustrative example of IPSAS 2 (non-authoritative) as a consequence of issuing revised IPSAS 3.

In staff’s view, inclusion of non-authoritative components in an authoritative part of the standard would result in confusion to the users of standards. Thus, staff proposes that IPSAS 5 be accompanied by an “Amendments to Guidance on Other IPSASs” in the same way as IAS 23 (to illustrate, staff has included such an accompanying component in the marked-up IPSAS 5).

Attached as Item 7.2A is a marked version of IPSAS 5, including a summary of major changes being proposed. Commentary on various proposals has been included to assist the IPSASB in understanding the rationale for staff proposals.

SUMMARY OF MAIN CHANGES IPSAS 5 BORROWING COSTS

The main changes proposed are:

Equal Authority Rubric

- To replace the previous introductory paragraph with a boxed equal authority rubric similar to those contained in IPSASs issued in January 2007.

Core Principle

- To replace the previous “objective” section with “core principle” section (see paragraph 1), number this section as part of the standard and change this section from plain type to bold type.
- To require that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and that other borrowing cost are recognized as an expense. Previously, IPSAS 5 generally required the immediate expensing of borrowing costs and permitted, as an allowed alternative treatment, the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

Scope

- To include in paragraph 6 a scope exclusion. An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:
 - (a) a qualifying asset measured at fair value; or
 - (b) inventories that are produced, in large quantities on a repetitive basis.

Previously, IPSAS 5 did not have a similar scope exclusion.

Definitions

- In paragraph 7:
 - to remove the following unnecessary definitions: “accrual basis”, “assets”, “cash”, “contributions from owners”, “distributions to owners”, “economic entity”, “expenses”, “government business enterprise”, “liabilities”, “net assets/equity”, “revenue”. Accordingly, the definition guidance (paragraph 7-12 in existing IPSAS 5) has also been deleted.
 - to change editorially the definition of “borrowing cost”.
- In paragraph 9:
 - to amend the examples of the term “qualifying assets”. The amended examples include “intangible assets” and “investment properties”.
 - to clarify that financial assets, and inventories that are produced over a short period of time are not qualifying assets. The words “other investments” and “those assets” used in previous IPSAS 5 have now been replaced with the words “financial assets” and “inventories” respectively.

Recognition

- To remove the option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. An entity is now required to capitalize such borrowing costs as part of the cost of that qualifying asset as set out in paragraph 10.

Previously, IPSAS 5 specified two accounting treatments for the recognition of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset --- a benchmark treatment and an allowed alternative treatment. The benchmark treatment required such borrowing costs to be recognized as an expense. The allowed alternative treatment required such borrowing costs to be recognized as part of the cost of that qualifying asset.

- To clarify in paragraph 11 that when an entity applies IPSAS 10, “Financial Reporting in Hyperinflationary Economies” it recognizes as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 24 of that Standard. Previously, IPSAS 5 did not contain this clarification.
- To replace the word “outlays” used in previous IPSAS 5 with the word “expenditures” (see paragraphs 12, 15, 16, 22 and 23).
- To amend paragraph 21 to ensure consistency with other IPSASs. The amended paragraph would:
 - replace the previous words “international and/or national accounting standards” with the words “International Public Sector Accounting Standards”; and
 - add the words “(or recoverable service amount)” after the words “recoverable amount”.
 -
- To change editorially paragraphs 14, 16, 22, 25-27 and 29.

Disclosure

- To remove the requirement for disclosure of the accounting policy adopted for borrowing costs.

Transitional Provisions

- To require an entity to apply this standard to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the effective date when application of the standard constitutes a change in accounting policy. Previously, for such a change in accounting policy, IPSAS 5 generally encouraged an entity to adjust its financial statements in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” and permitted, as an alternative, entities following the allowed alternative treatment to capitalize only those borrowing costs incurred after the effective date of this standard which meet the criteria for capitalization.

- To include a transitional provision that an entity may designate any date before the effective date and apply the standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date. Previously, IPSAS 5 did not include such provision.

Amendments to Other IPSASs

- To include an authoritative appendix of amendments to other IPSASs that will be impacted as a result of the proposals in this IPSAS.

Amendments to Guidance on Other IPSASs

- To include a list of amendments to guidance on other IPSASs that will be impacted as a result of the proposals in this IPSAS.

IPSAS 5—BORROWING COSTS

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Basis for
Conclusions
will be
prepared for
review
accompanyi
ng the draft
ED of the
proposed
amendment
s to this
Standard.

This Para
has been
replaced
with a
equal
authority
rubric
following
IPSASB'
policy

International Public Sector Accounting Standard 5, "Borrowing Costs" (IPSAS 5) is set out in paragraphs 1-36 and the Appendix. All the paragraphs have equal authority. IPSAS 5 should be read in the context of its objective, the Basis for Conclusions 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.

~~*The standards, which have been set in bold, 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.*~~

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 5, "Borrowing Costs," replaces IPSAS 5, "Borrowing Costs" (issued May 2000), and should be applied for annual reporting periods beginning on or after MM DD, YYYY. Earlier application is encouraged.

Reasons for Revising IPSAS 5

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 5 as a response to the International Accounting Standards Board's amendments to International Accounting Standard (IAS) 23, "Borrowing Costs" in March 2007 and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 5, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 23, "Borrowing Costs" made as a consequence of the IASB's amendments to IAS 23 in March 2007, except where the original IPSAS had varied from the provisions of IAS 23 for a public sector specific reason; such variances are retained in this IPSAS 5 and are noted in the Comparison with IAS 23.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 5 are described below.

Scope

IN5. The Standard does not require an entity to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

- (c) a qualifying asset measured at fair value; or
- (d) inventories that are produced, in large quantities on a repetitive basis.

Definitions

IN6. The Standard:

- Modifies the definition of "Borrowing Costs";
- Removes the following unnecessary terms: "accrual basis", "assets", "cash", "contributions from owners", "distributions to owners", "economic entity", "expenses", "government business enterprise", "liabilities", "net assets/equity" and "revenue". These terms are defined in other IPSASs and are reproduced in the "Glossary of Defined Terms IPSASs 1-24";
- Includes "intangible assets" and "investment properties" as the examples of the term "qualifying assets" and clarify that financial assets and

inventories that are produced over a short period of time are not qualifying assets.

Recognition

IN7. The Standard removes the previous option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Standard now requires an entity to capitalize such borrowing costs as part of the cost of that qualifying asset.

IN8. The Standard clarifies that when an entity applies IPSAS 10, “Financial Reporting in Hyperinflationary Economies” it recognizes as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 24 of that Standard. Previously, IPSAS 5 did not contain this clarification.

IN9. Paragraphs 14, 16, 22, 25-27 and 29 have editorially been modified.

Disclosure

IN10. The Standard removes the previous requirement for disclosure of the accounting policy adopted for borrowing costs.

Transitional Provisions

IN11. The Standard requires an entity to apply this standard to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the effective date when application of the standard constitutes a change in accounting policy. Previously, for such a change in accounting policy, an entity is generally encouraged to adjust its financial statements in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” and is permitted, as an alternative, to capitalize only those borrowing costs incurred after the effective date of this standard which meet the criteria for capitalization.

IN12. The Standard provides a new transitional provision that an entity may designate any date before the effective date and apply the standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date.

In IAS 23, the previous "Objective" section has been replaced with a new section entitled "Core Principle" (also changed from plain type to bold type). This is not a substantive change but is a change in style

ObjectiveCore Principle

1. ~~This Standard prescribes the accounting treatment for borrowing costs. This Standard generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of B~~ **borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.**

Scope

- ~~1.2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply t~~ **This Standard should be applied in accounting for borrowing costs.**
- ~~2.3. This Standard applies to all public sector entities other than Government Business Enterprises.~~
- ~~3.4. 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) which are issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, "Presentation of Financial Statements".~~
- ~~4.5. Theis~~ **Standard does not deal with the actual or imputed cost of net assets/equity. Where jurisdictions apply a capital charge to individual entities, judgment will need to be exercised to determine whether the charge meets the definition of borrowing costs or whether it should be treated as an actual or imputed cost of net assets/equity.**
- ~~6. An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:~~
 - ~~(a) a qualifying asset measured at fair value; or~~
 - ~~(b) inventories that are produced, in large quantities on a repetitive basis.~~

This Para is drawn from Para 4 of IAS 23. The wording of (a) and (b) is slightly different from IASB's. The equivalent wording in the revised IAS 23 is as follows:

- (a) a qualifying asset measured at fair value, for example a biological asset; or
- (b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

Staff deleted the example in (a) considering the IPSASB had not dealt with biological assets and changed the wording of (b) in the public sector context.

Definitions

- ~~5.7. The following terms are used in t~~ **This Standard uses the following terms with the meanings specified:**

Unnecessary definitions (accrual basis, assets) were deleted following IPSASB's policy

Change the definition to be consistent with that in IAS 23.

Unnecessary definitions (a cash, contributions from owners, distributions to owners, economic entity, expenses, government business enterprise, liabilities, net assets/equity, revenue) were deleted following IPSASB's policy

~~Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.~~

~~Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.~~

Borrowing costs are interest and other ~~expense~~**costs incurred by that** an entity **incurs** in connection with the borrowing of funds.

~~Cash comprises cash on hand and demand deposits.~~

~~Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:~~

~~(a) Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or~~

~~(b) Can be sold, exchanged, transferred or redeemed.~~

~~Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.~~

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

~~Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.~~

~~Government Business Enterprise means an entity that has all the following characteristics:~~

~~(a) Is an entity with the power to contract in its own name;~~

~~(a) Has been assigned the financial and operational authority to carry on a business;~~

~~(b) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;~~

~~(c) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and~~

~~(d) Is controlled by a public sector entity.~~

~~Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.~~

~~Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.~~

~~A Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.~~

~~Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.~~

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.

Borrowing Costs

~~6.8.~~ Borrowing costs may include:

- (a) Interest on bank overdrafts and short-term and long-term borrowings;
- (b) Amortization of discounts or premiums relating to borrowings;
- (c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;
- (d) Finance charges in respect of finance leases recognized in accordance with IPSAS 13, "Leases"; and
- (e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Economic Entity

~~9. 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.~~

~~10. Other terms sometimes used to refer to an economic entity include "administrative entity," "financial entity," "consolidated entity" and "group."~~

~~11. 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.~~

Future Economic Benefits or Service Potential

~~12. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential." Assets that are used to generate net cash inflows are often described as embodying "future economic benefits." To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.~~

Government Business Enterprises

Delete unnecessary definition guidance: economic entity, future economic benefits or service potential, government business enterprises, net assets/equity.

~~13. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. IPSAS 6, "Consolidated and Separate Financial Statements" provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.~~

Net Assets/Equity

~~14. "Net assets/equity" is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.~~

Qualifying Assets

9. ~~Examples of qualifying assets are~~Depending on the circumstances, any of the following may be qualifying assets:

~~-(a) Inventories~~

~~(b) Office buildings;~~

~~(c) Hospitals;~~

~~(d) Infrastructure assets such as roads, bridges~~

~~(e) Power and power generation facilities;~~

~~(f) Intangible assets and inventories that require a substantial period of time to bring them to a condition ready for use or sale~~

~~(g) Investment properties.~~

~~Financial assets, Other investments, and those assets/inventories that are routinely produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.~~

Change this
Para in
accordance
with Para 7 of
IAS 23

Borrowing Costs—Benchmark Treatment

Recognition

~~15. Borrowing costs should be recognized as an expense in the period in which they are incurred.~~

~~16. Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied.~~

Disclosure

~~17. The financial statements should disclose the accounting policy adopted for borrowing costs.~~

Borrowing Costs—Allowed Alternative Treatment

Recognition

~~17.10. Borrowing costs~~ An entity should shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs be recognized as an expense in the period in which it incurs them they are incurred, except to the extent that they are capitalized in accordance with paragraph 18.

Change this Para in accordance with Para 8 of IAS 23.

~~19. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard.~~

~~19.11. Under the allowed alternative treatment, b~~ Borrowing costs that are directly attributable to the acquisition, construction or production of an qualifying asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits or service potential to the entity and the costs can be measured reliably. -When an entity applies IPSAS 10, “Financial Reporting in Hyperinflationary Economies”, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 24 of that Standard Other borrowing costs are recognized as an expense in the period in which they are incurred.

Change this Para in accordance with Para 9 of IAS 23.

~~21. Where an entity adopts the allowed alternative treatment, that treatment should be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction or production of all qualifying assets of the entity.~~

Borrowing Costs Eligible for Capitalization

~~21.12.~~ The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the outlays expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

Both the previous version and the revised version of IAS 23 use the term “expenditure” rather than “outlay”. Staff has replaced the term “outlay(s)” incorporated in Para 12, 15, 16, 22, 23 in the IPSAS with “expenditure(s)” to be consistent with IFRSs and other IPSASs.

~~22.13.~~ It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when an economic entity uses a range of debt instruments to borrow funds at varying rates of interest, and transfers those funds on various bases to other entities in the economic entity. Funds which have been borrowed centrally may be transferred to other entities within the economic entity as a loan, a grant or a capital injection. Such transfers may be interest-free or require that only a portion of the actual interest cost be recovered. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the economic entity operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgment is required.

~~23.14.~~ To the extent that **an entity borrows funds** ~~are borrowed~~ specifically for the purpose of obtaining a qualifying asset, ~~the amount of borrowing costs eligible for capitalization on that asset should be~~ **the entity shall determine the amount of borrowing costs eligible for capitalisation** as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The IASB changed this para editorially to improve its style. There are also editorial changes in para 16, 22, 25-27, 29 below.

~~24.15.~~ The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for ~~outlays-expenditures~~ on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their ~~outlay-expenditure~~ on the qualifying asset. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

~~25.16.~~ To the extent that ~~funds are an entity borrows funds~~ **generally and used use them** for the purpose of obtaining a qualifying asset, ~~the entity shall the amount of borrowing costs eligible for capitalization should be determined the amount of borrowing costs eligible for capitalization~~ by applying a capitalization rate to the ~~outlays-expenditures~~ on that asset. The capitalization rate ~~should-shall~~ be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs ~~that an entity capitalized~~ during a period should not exceed the amount of borrowing costs **it** incurred during that period.

~~26.17.~~ Only those borrowing costs applicable to the borrowings of the entity may be capitalized. When a controlling entity borrows funds which are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalize only those borrowing costs which it itself has incurred. Where a controlled entity receives an interest-free capital contribution or capital grant, it will not incur any borrowing costs and consequently will not capitalize any such costs.

- 27.18. When a controlling entity transfers funds at partial cost to a controlled entity, the controlled entity may capitalize that portion of borrowing costs which it itself has incurred. In the financial statements of the economic entity, the full amount of borrowing costs can be capitalized to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity.
- 28.19. When a controlling entity has transferred funds at no cost to a controlled entity, neither the controlling entity nor the controlled entity would meet the criteria for capitalization of borrowing costs. However, if the economic entity met the criteria for capitalization of borrowing costs, it would be able to capitalize the borrowing costs to the qualifying asset in its financial statements.
- 29.20. In some circumstances, it is appropriate to include all borrowings of the controlling entity and its controlled entities when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each controlled entity to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount

- 30.21. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount (or recoverable service amount) or net realizable value, the carrying amount is written down or written off in accordance with the requirements of other ~~international and/or national accounting standards~~ International Public Sector Accounting Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other standards.

Given that IPSAS 12, "Inventories," IPSAS 21, "Impairment of Non-Cash Generating Assets" and the proposed IPSAS on Impairment of Cash-Generating Assets provide the requirements of the write-down or write-off of the carrying amount of qualifying assets, staff proposes that the term "international and/or national accounting standards" be replaced with "International Public Sector Accounting Standards". It is also proposed that the words "(or recoverable service amount)" be inserted after the words "recoverable amount" to ensure consistency with IPSAS 21.

Commencement of Capitalization

- 31.22. ~~The capitalization of~~ An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date should commence when the entity first meets all of the following conditions:
- (a) ~~Outlays it incurs expenditures~~ for the asset are being incurred;
 - (b) ~~Borrowing it incurs borrowing costs are being incurred;~~ and
 - (c) ~~Activities it undertakes activities~~ that are necessary to prepare the asset for its intended use or sale are in progress.
- 32.23. ~~Outlays-Expenditures~~ on a qualifying asset include only those ~~outlays expenditures~~ that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. The average carrying amount of the asset during a period, including borrowing costs previously capitalized, is normally a reasonable approximation of the ~~outlays-expenditures~~ to which the capitalization rate is applied in that period.
- 33.24. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include

technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalized during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalization.

Suspension of Capitalization

~~34.25.~~ **Capitalization** ~~An entity shall suspend capitalization of borrowing costs should be suspended during extended periods in which it suspends active development of a qualifying asset is interrupted, and expensed.~~

~~35.26.~~ **Borrowing** ~~An entity may incur borrowing costs may be incurred during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalization. However, an entity does not normally suspend capitalising capitalization of borrowing costs is not normally suspended during a period when it carries out substantial technical and administrative work is being carried out. An entity also does not suspend capitalising Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalization continues during an extended period needed for inventories to mature or anthe extended period during which that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved.~~

Cessation of Capitalization

~~36.27.~~ **Capitalization** ~~An entity shall cease capitalising of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.~~

~~37.28.~~ An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that is outstanding, this indicates that substantially all the activities are complete.

~~38.29.~~ When **an entity completes** the construction of a qualifying asset **is completed** in parts and each part is capable of being used while construction continues on other parts, **capitalization of borrowing costs the entity should shall cease capitalizing borrowing costs when it completes** substantially all the activities necessary to prepare that part for its intended use or sale **are completed.**

~~39.30.~~ An office development comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues on other parts. Examples of qualifying assets that need to be complete before any part can be used include an operating theatre in a hospital when all construction must be complete before the theatre may be used; a sewage treatment plant where several processes are carried out in sequence at different parts of the plant; and a bridge forming part of a highway.

Disclosure

40.31. ~~The financial statements~~An entity should disclose:

Change this
Para in
accordance
with Para 26
of IAS 23

~~(a) The accounting policy adopted for borrowing costs;~~

~~(b)~~(a) The amount of borrowing costs capitalized during the period; and

~~(c)~~(b) The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (when it was necessary to apply a capitalization rate to funds borrowed generally).

Transitional Provisions

Change Paras
32 and 33 in
accordance
with Para 27
and 28 of IAS

32. When application of this Standard constitutes a change in accounting policy, an entity shall apply the Standard to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date.

33. However, an entity may designate any date before the effective date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.

~~42. When the adoption of this Standard constitutes a change in accounting policy, an entity is encouraged to adjust its financial statements in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors". Alternatively, entities following the allowed alternative treatment should capitalize only those borrowing costs incurred after the effective date of this Standard which meet the criteria for capitalization.~~

Effective Date

~~42.34. This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after July 1, 2001. Earlier application is encouraged.~~An entity shall apply the Standard for annual periods beginning on or after MM DD, YYYY. Earlier application is permitted. If an entity applies the Standard from a date before MM DD, YYYY it shall disclose that fact.

43.35. 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 5 (issued 2000)

The withdrawal
para was added
following
IPSASB policy

36. This standard supersedes IPSAS 5, "Borrowing Costs" issued in 2000.

This section, Amendments to Other IPSASs, is newly added as part of this standard following the IPSASB's policy. Only the relevant paras in other IPSASs that are impacted as a result of proposals in this standard are shown up in marked-up format.

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 1, "Presentation of Financial Statement," the last sentence of paragraph 134 is deleted.
- A2. In IPSAS 2, "Cash Flow Statements," paragraph 41 is amended to read as follows:
- 41 The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the statement of financial performance or capitalised in accordance with ~~the allowed alternative treatment in~~ IPSAS 5, "Borrowing Costs".
- A3. In IPSAS 11, "Construction Contracts," paragraph 26 is amended to read as follows:
- 26 Costs that may be attributable to contract activity in general and can be allocated to specific contracts include:
- (a) Insurance;
 - (b) Costs of design that are not directly related to a specific contract; and
 - (c) Construction overheads.
- Such costs are allocated using methods that are systematic and rational and are applied consistently to all costs having similar characteristics. The allocation is based on the normal level of construction activity. Construction overheads include costs such as the preparation and processing of construction personnel payroll. Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs ~~when the contractor adopts the allowed alternative treatment in IPSAS 5, "Borrowing Costs."~~
- A4. In IPSAS 17, "Property, Plant and Equipment," paragraph 37 is amended to read as follows:
- 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 recognised as interest over the period of credit unless such interest is ~~recognized in the carrying amount of the item~~ capitalised in accordance with ~~the allowed alternative treatment in~~ IPSAS 5.

This section, “Amendments to Guidance on Other IPSASs”, is new. In the revised IAS 23, “Amendments to Guidance on Other Pronouncements” (not part of the standard and without effective date for it), is separately listed and distinguished from “Amendments to Other pronouncementment” (as part of the standard with an effective date for it). Staff proposes such section be added to accompany the IPSAS in the same way as the revised IAS 23.

Amendments to Guidance on Other IPSASs

The following amendments to guidance on other IPSASs are necessary in order to ensure consistency with the revised IPSAS 5.

IGA1 In the Guidance on Implementing IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors,” Example 2 is deleted.

Comparison with IAS 23

International Public Sector Accounting Standard (IPSAS) 5, "Borrowing Costs" is drawn primarily from International Accounting Standard (IAS) 23, "Borrowing Costs" (2007). The main differences between IPSAS 5 and IAS 23 are as follows:

- Commentary additional to that in IAS 23 has been included in IPSAS 5 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 5 uses different terminology, in certain instances, from IAS 23. The most significant examples are the use of the terms ~~"entity," "revenue," "statement of financial performance," "statement of financial position" and "net assets/equity."~~ "economic entity," "controlling entity," "controlled entity" in IPSAS 5. The equivalent terms in IAS 23 are ~~"enterprise," "income," "income statement," "balance sheet" and "equity."~~ "group," "parent," "subsidiary."
- ~~IPSAS 5 contains a different set of definitions of technical terms from IAS 23 (paragraph 5).~~