



**INTERNATIONAL FEDERATION
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Agenda Item

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Date: May 30, 2012
Memo to: Members of the IPSASB
From: Jens Heiling
Subject: First-time Adoption of Accrual Basis IPSASs – **Covering Memo**

Objective of this Session

1. To **discuss** selected **key issues** identified during the drafting phase of the ED
2. **Review** of a first working draft of an ED on First-time Adoption of Accrual Basis IPSASs

Agenda Material

3. Agenda material attached to this memorandum:
 - 6.1 Issues Paper
 - 6.2 First working draft of an ED on First-time Adoption of Accrual Basis IPSASs
 - 6.3 IFRS 1, *First-time Adoption of International Financial Reporting Standards* (version of the IASB's bound volume 2011, i.e. including amendments issued up to December 31, 2010) for your information. [Provided as a separate file]

Background

4. At its June 2011 meeting the IPSASB approved the First-time Adoption of Accrual Basis IPSASs Project, previously named the First-time Adoption of IPSASs Project.
5. The project's overall objective is to explore the accounting treatment for the first-time adoption of accrual basis IPSASs of public sector entities and to develop an IPSAS that provides guidance on first-time adoption of those standards.
6. In its March 2012 meeting the IPSASB confirmed that the standard should not consider:
 - (a) The transition from a non-IPSAS compliant cash basis to the IPSAS compliant cash basis;
 - (b) The transition to a non-IPSAS compliant accrual basis.

No matter which accounting basis an entity applied before, the standard should focus on the end result of a transition (i.e. IPSAS compliant financial statements).
7. The IPSASB considered an approach to develop transitional arrangements with no specific distinction between scenario 1 (i.e., transition from the (modified) cash basis (non-IPSAS, IPSAS) to the IPSAS accrual basis) and scenario 2 (i.e., transition from the non-IPSAS or IPSAS-like (modified) accrual basis to the IPSAS accrual basis) as suitable for the development of the

Standard. A pure convergence project with IFRS 1 was considered as not appropriate given the fact that IFRS 1 does not specifically cover issues related to scenario 1. It was also noted that differences between the two scenarios and the different transitional issues need to be considered throughout the development of the Standard.

8. Based on the fact that the project has a technical focus, the IPSASB asked staff to develop an ED as a next step.

Progress made

9. Between the March and the June meeting the Task-based Group (TBG) had two teleconferences. The discussions have shown that some key issues involved in drafting the Exposure Draft (ED) needs to be resolved before a stable version of the ED can be discussed in detail by the Board. As a consequence staff was asked by the TBG to put a focus on some selected issues for the June meeting. In order to give the Board a “look and feel” of the ED and also to address some of the issues in the context of the ED itself staff decided after clearance with the TBG also to present a first working draft of the ED to the Board.
10. One of the main priorities for this meeting is to get the Board’s views and comments on the presentation of comparative information on first-time adoption of accrual basis IPSASs. The IPSASB’s view to comparative information will likely have consequences to the definitions section of the Standard. Related to the approach towards the presentation of comparative information is the use of reconciliations. These issues are outlined in Issue 1 of the Issues Paper.

Objectives of the Issues Paper

1. **Provide comments** on selected **key issues** identified during the drafting phase of the ED
2. **Discuss** selected **transitional provisions**
3. **Review** the structure of a first working draft of an ED on First-time Adoption of Accrual Basis IPSASs

Issue 1: Presentation of Comparative Information and Reconciliations

A. Presentation of Comparative Information

At its March 2012 meeting the IPSASB expressed the view that the ED should encourage the provision of comparative figures, but there should be no requirement to provide comparative information in an entity's first IPSAS financial statements. At that meeting the IPSASB did not express any views whether this statement is dependent on the basis of accounting an entity has used before the first-time adoption of IPSASs.

The discussions within the TBG showed that the approach towards the presentation of comparative information in an entity's first IPSAS financial statements might depend on the basis of accounting an entity has used before the first-time adoption of IPSAS, i.e. whether an entity falls under scenario 1 or scenario 2.¹ Members of the TBG were of the view that when an entity has presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements then an entity **should be required** to present comparative information in its first IPSAS financial statement, which is similar to the requirements in IFRS 1. In line with the Board's previous discussions, the TBG broadly agreed that, in all other instances, entities should be encouraged but not required to prepare comparative information.

To illustrate the impact of requiring comparative information to be presented in certain instances, staff has summarized the IFRS 1-approach towards the presentation of comparative information in an entity's first IPSAS financial statements in the diagram below:

¹ Scenario 1 refers to a transition from the (modified) cash basis (non-IPSAS, IPSAS) to the IPSAS accrual basis and scenario 2 to a transition from the non-IPSAS or IPSAS-like (modified) accrual basis to the IPSAS accrual basis.

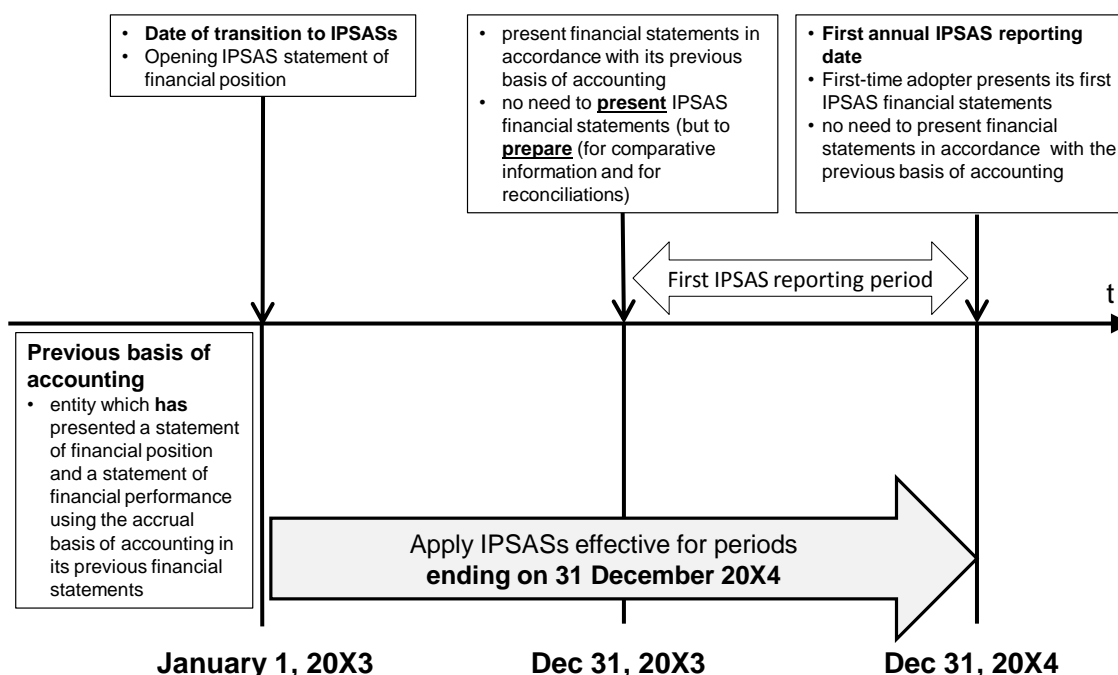


Figure 1: IFRS 1-Approach towards the Presentation of Comparative Information

Staff wants to highlight that under this approach the entity applies the IPSAS accounting policies effective for periods ending on 31 December 20X4 throughout the whole transition period. Under this approach, the entity also needs to present financial statements in accordance with its previous basis of accounting until December 31, 20X3 (see also IGX1 in the Implementation Guidance section of the draft ED).

Staff is of the view that entities which applied the accrual basis of accounting before the adoption of accrual IPSASs should be required to present comparative information. If an entity has applied the accrual basis of accounting before, then users may have a stronger need for this information to be restated using IPSASs than if another basis of accounting is used. Staff also assumes that entities which already apply the accrual basis of accounting will likely have the required infrastructure (ERP-systems, historical records, etc.) to provide such information. Even though it is assumed that entities would have this information available more readily, transitional provisions for the first-time adoption of IPSASs may still be needed in certain instances.

The proposed wording for that approach can be found in paragraph 47 of the draft ED.

Issue I: Should comparative information be required in certain circumstances?

Staff asks the Board:

- (a) Whether it agrees that:
 - entities that presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in their previous financial statements **should be required** to present comparative information, and
 - all other entities **should be encouraged, but not required**, to prepare comparative information.
- (b) Whether **all entities** should be encouraged to present comparative information, i.e. **irrespective of the basis of accounting an entity has used before**. As a consequence of alternative (b) no entity would be required to present comparative information in its first IPSAS financial statements.

Alternative View Regarding the Requirement/Encouragement to Present Comparative Information

During the discussions within the TBG a view was expressed that entities which have previously published a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements should not necessarily be required to follow the rigid IFRS 1-approach with respect to comparative information as outlined in figure 1, i.e. comprising a transition period of two periods (January 1, 20X3 to December 31, 20X4) and requiring to present financial statements in accordance with its previous basis of accounting until December 31, 20X3.

Under this alternative approach the view is taken that such entities could present comparative information for the period January 1, 20X3 to December 31, 20X3 in its first IPSAS financial statements by restating the previous financial statements according to the previous basis of accounting using accrual basis IPSASs.

Based on this view the issue was raised whether the date of transition to IPSASs refers to the 'beginning of the earliest period for which an entity presents its first IPSAS financial statements' (which is January 1, 20X3 based on the example used in figure 1) or to the 'beginning of the first IPSAS reporting period' (which is January 1, 20X4 based on the example used in figure 1).

This view will also have substantive implications for the question whether an explicit and unreserved statement of compliance with IPSASs would only apply to the first IPSAS reporting period or to the whole transition period (and also implications to other parts of the ED, e.g. reconciliations).

Under this view, referring the date of transition to IPSASs to the beginning of the first IPSAS reporting period implies limiting the unreserved statement of compliance with IPSAS to this period, even if previous period comparative information is reported either as a requirement or on a voluntary basis. Under this approach, a general requirement for reporting comparative information compliant with IPSAS would be stated, but this would be supplemented by a requirement for disclosing exceptions which may occur, as well as their reasons and impacts, in the notes.

This approach intends to be a public sector-specific balance between encouraging transition to IPSASs for such entities and having reliable comparative information reported in the first IPSAS financial statements.

Issue II: Alternative View Regarding the Requirement/Encouragement to Present Comparative Information

Staff would like to ask whether the IPSASB wants to follow the alternative view regarding the requirement/encouragement to present comparative information based on the presented rationale?

At the last Board meeting, it was indicated that, in order to promote the adoption of accrual IPSASs, the presentation of comparative information should not be required but encouraged. Therefore, irrespective of the outcome of issue 1, some entities will be encouraged rather than required to present comparative information. Because of this encouragement to present comparative information the question arises whether an entity has to provide comparative information at all in its first IPSAS financial statements. To ensure that an entity presents at least comparative figures with respect to the statement of financial position, staff proposes a minimum requirement to present such comparative information in an entity's first IPSAS financial statements, i.e. two statements of financial position, which includes the opening IPSAS statement of financial position. Please note that the opening IPSAS statement of financial position equals the (ending) IPSAS financial statement of position of the previous year.

Where an entity does not present a full set of comparative information, the date of transition to IPSASs and the first annual IPSAS reporting date are in the first IPSAS reporting period. This differs from the IFRS 1-approach as outlined above. The following diagram depicts the terms 'date of transition to IPSASs' and 'first IPSAS reporting period' in case that an entity which has not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements and makes use of the minimum requirement:

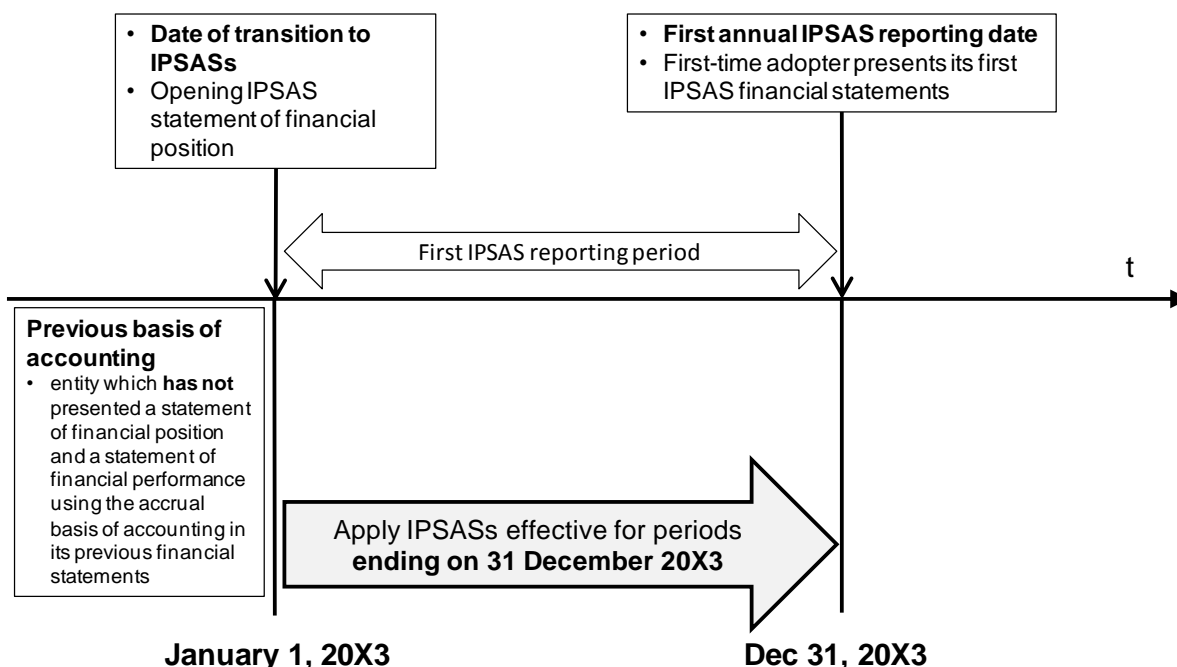


Figure 2: Proposed IPSAS-Approach in Case that an Entity Does Not Present a Full Set of Comparative Information

In order to reflect the Board's proposal at the last meeting that entities should be encouraged and not required to present comparative information, staff has drafted a paragraph

- (a) Outlining the proposed requirements regarding the presentation of comparative information, and
- (b) The minimum information presented in these circumstances.

This paragraph can be found in paragraph 48 of the draft ED. Depending on the outcome of issue 1, this paragraph may need to be modified if certain entities will or will not be required to present comparative information. The proposed wording is as follows:

- 48. An entity which has not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements is encouraged, but is not required, to present comparative information in its first IPSAS financial statements as described in paragraph 47. As a minimum requirement, an entity shall present, in its first IPSAS financial statements:**
- (a) Two statements of financial position, which includes an opening statement of financial position;**
 - (b) One statement of financial performance;**
 - (c) One statement of changes in net assets/equity;**
 - (d) One cash flow statement;**
 - (e) A comparison of budget and actual amounts for the current year either as a separate additional financial statement or as a budget column in the financial statements if the entity makes its approved budget publicly available;**
 - (f) Related notes, including the reconciliation required by paragraph 55.**

Issue III: Proposed minimum requirement where entities are not required to present comparative information

Staff asks the Board whether it agrees with:

- (a) The proposed minimum requirement where entities are not required to present comparative information;
- (b) The proposed wording of paragraph 48. [Please note that based on the outcome of the first issue in this section the wording of the first sentence of the paragraph might change].

B. Explanation of Transition to IPSASs - Reconciliation requirements

In considering what information would be useful to users of the financial statements regarding the first time adoption of IPSASs, staff is of the view that including a reconciliation in the financial statements of the adjustments that were necessary to conform with the requirements of the accrual basis IPSASs will be important and useful information for users. Where entities are not required to provide comparative information, the presentation of a reconciliation may provide an important link between the information previously presented and the information prepared using IPSASs. Therefore, an entity shall explain how the transition from the previous basis of accounting to IPSASs affected its reported financial position, financial performance and cash flows (see paragraph 52 of the draft ED).

In analogy to the approach used for comparative information staff is of the view that the presentation of reconciliations depends on whether an entity has presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements. Therefore, staff has decided to differ between the following two cases:

1. Reconciliation requirements for entities which have presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements, and
2. Reconciliation requirements for entities which have not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements.

Questions for the IPSASB:

Staff would like to ask the Board whether it agrees that the reconciliation requirements should be based on whether an entity has presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements.

1. *Reconciliation requirements for entities which have presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements*

Using the reconciliation requirements of IFRS 1 as a starting point, staff has drafted the two paragraphs with the reconciliation requirements for such entities as follows:

- 53. Where an entity has presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements, the entity's first IPSAS financial statements shall include:**
- (a) **Reconciliations of its net assets/equity reported in accordance with the previous basis of accounting to its net assets/equity in accordance with IPSASs for both of the following dates:**
 - (i) **The date of transition to IPSASs; and**
 - (ii) **The end of the latest period presented in the entity's most recent annual financial statements in accordance with the previous basis of accounting.**
 - (b) **A reconciliation to its surplus or deficit in accordance with IPSASs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be surplus or deficit in accordance with the previous basis of accounting for the same period.**

The reconciliations required by paragraph 55(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of financial performance.

54. If an entity presented a cash flow statement under its previous basis of accounting, it shall also explain the material adjustments to the cash flow statement.

Staff would like to underline that an entity is required to present two reconciliations with respect to net assets/equity in its first IPSAS financial statements. Following the example used in figure 1, an entity would be required to present a reconciliation of its net assets/equity reported in accordance with the previous basis of accounting to its net assets/equity in accordance with IPSASs for January 1, 20X3 and for December 31, 20X3. The reconciliation to its surplus or deficit would be presented for December 31, 20X3 in its first IPSAS financial statements. As a consequence an entity needs to present financial statements in accordance with its previous basis of accounting until December 31, 20X3 (see also IGX1 in the Implementation Guidance section of the draft ED).

Questions for the IPSASB:

Staff would like to ask the Board whether it agrees with

- (a) The proposed requirements of paragraphs 53 and 54;
- (b) The proposed wording of paragraph 53, specifically the wording related to when the reconciliation outlined above would be prepared.

2. *Reconciliation requirements for entities which have not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements*

Here the question arises whether an entity which has not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements shall present

- (a) A reconciliation of its closing balances reported in accordance with the previous basis of accounting **for the previous period** to its net assets/equity in accordance with IPSASs **for the date of transition to IPSASs**; or
- (b) A reconciliation of its closing balances reported in accordance with the previous basis of accounting **for the current period** to its net assets/equity in accordance with IPSASs **for the first IPSAS annual reporting date**.

In order to present such a reconciliation as outlined in case (b) an entity would be required to present financial statements according to the previous basis of accounting until the first IPSAS annual reporting date and not only until the date of transition to IPSASs. As a consequence the entity would be required to present two sets of financial statements at the first IPSAS annual reporting date, i.e. a set of financial statements according to IPSASs as well as one set of financial statements in accordance with the previous basis of accounting.

In order to allow for a smooth transition staff was of the view that an entity should not be required to present such a reconciliation as outlined in case (b).

Questions for the IPSASB:

Staff would like to get the Board's confirmation that entities which have not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements should not be required to present reconciliations as outlined in case (b) and therefore not be required to present financial statements according to the previous basis of accounting until the first IPSAS annual reporting date.

Staff proposes the following wording for such paragraphs:

- 55. Where an entity has not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements, an entity's first IPSAS financial statements shall include a reconciliation of its closing balances reported in accordance with the previous basis of accounting for the previous period to its net assets/equity in accordance with IPSASs for the date of transition to IPSASs. The reconciliations required by this paragraph shall give sufficient detail to enable users to understand the material differences between the closing balances reported in accordance with the previous basis of accounting and the net assets/equity in accordance with IPSASs.**
- 56. If an entity presented a statement of cash receipts and payments or a cash flow statement under its previous basis of accounting, it shall also explain the material adjustments to the cash flow statement.**

Please note that the wording in paragraph 56 is aligned to the terminology used in the Cash Basis IPSAS.

Questions for the IPSASB:

Staff asks the Board whether it agrees with:

- (a) The proposed requirements of paragraphs 55 and 56.
- (b) The proposed wording of paragraph 55, especially the wording related to the specific characteristics of such an entity.

Issue 2: Discussion of Selected Transitional Provisions

Staff has started to analyze issues involved with the transition to accrual basis IPSASs and considered appropriate relief. Staff reviewed the transitional provisions as provided by IPSASs and the transitional provisions provided by IFRS 1 and used the outcome of that review as a starting point. As the required relief might depend on the basis of accounting an entity has used before the transition, the analysis differed between the two transition scenarios as outlined in the Issues Paper for the Duesseldorf meeting, i.e. a transition from the (modified) cash basis (non-IPSAS, IPSAS) to the IPSAS accrual basis (scenario 1) or a transition from the non-IPSAS or IPSAS-like (modified) accrual basis to the IPSAS accrual basis (scenario 2). As (mandatory) exceptions as well as (optional) exemptions can only be provided for existing IPSASs staff decided to perform the analysis of the transitional issues IPSAS by IPSAS.

The focus of staff for this meeting was on the following IPSASs:

- IPSAS 1, *Presentation of Financial Statements*
- IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*
- IPSAS 5, *Borrowing Costs*
- IPSAS 6, *Consolidated and Separate Financial Statements*
- IPSAS 7, *Investments in Associates*
- IPSAS 8, *Interest in Joint Ventures*
- IPSAS 11, *Construction Contracts*
- IPSAS 12, *Inventories*
- IPSAS 16, *Investment Property*
- IPSAS 17, *Property, Plant and Equipment*
- IPSAS 21, *Impairment of Non-Cash-Generating Assets*
- IPSAS 26, *Impairment of Cash-Generating Assets*
- IPSAS 27, *Agriculture*

Transitional issues related to IPSAS 1, Presentation of Financial Statements

Accounting issue:	Requirement to present a comparison of budget and actual amounts when the entity makes publicly available its approved budget (cf. IPSAS 1.21(e))	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
No direct transitional provisions in IPSAS 1. According to IPSAS 24.52, the disclosure of comparative information in respect of the previous period [...] is not required.	No such requirement in IFRSs.	
Proposal for ED:	<ol style="list-style-type: none"> 1. An entity should be required to present a comparison of budget and actual amounts when the entity makes publicly available its approved budget at first-time adoption of IPSASs. 2. Entities should not be required to present comparative information. 3. Entities should be required to present a comparison of budget and actual amounts only for the end of the first IPSAS reporting period. <p>See paragraph 49 in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> • The requirement to present a comparison of budget and actual amounts is one of the central features within the suite of IPSASs, namely IPSAS 24. • Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity. • Based on IPSAS 24.52 entities should not be required to present comparative information. • As the first IPSAS reporting period is the period of interest entities should be required to present a comparison of budget and actual amounts only for the end of the first IPSAS reporting period. 	

Transitional issues related to IPSAS 4, The Effects of Changes in Foreign Exchange Rates

Accounting issue:	Accounting for cumulative translation differences at first-time adoption of IPSASs (cf. IPSAS 4.67)	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
IPSAS 4.67: 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 IPSASs. If a first-time adopter uses this exemption:	<p>IFRS 1.D12-D13: [...] However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs.</p> <p>If a first-time adopter uses this exemption:</p> <p>(a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of first adoption to IPSASs; and</p> <p>(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 of IPSASs, and shall include later translation differences.</p>	
Proposal for ED:	<p>Transitional provisions in IPSAS 4 related to first-time adoption should be incorporated in the first-time adoption ED.</p> <p>See paragraph 27 and 28 in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> Relief provided in IPSAS 4.67 is the same as the relief provided by IFRS 1 and staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity. No further need for relief identified by staff. 	

Transitional issues related to IPSAS 5, Borrowing Costs

Accounting issue:	Capitalization of borrowing costs at first-time adoption of IPSASs (cf. IPSAS 5.41)	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
<p>IPSAS 5.41: 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, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. Alternatively, entities following the allowed alternative treatment shall capitalize only those borrowing costs incurred after the effective date of this Standard that meet the criteria for capitalization.</p> <p>Please note:</p> <ul style="list-style-type: none"> • IPSAS 5.41 is based on the December 1993 version of IAS 23.30. • The effective date of IPSAS 5 is July 1, 2001. 		<p>IFRS 1.D23: A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23, as revised in 2007. In those paragraphs references to the effective date shall be interpreted as 1 January 2009 or the date of transition to IFRSs, whichever is later.</p> <p>IAS 23.27: 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.</p> <p>IAS 23.28: 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.</p>
Proposal for ED:	<p>1. Make a reference to IPSAS 5.41 in the ED and do not provide stand-alone transitional provisions for borrowing costs in the ED.</p> <p>See paragraph 29 in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> • IPSAS 5 only applies in case that an entity incurs borrowing costs. Therefore, the transitional provisions in IPSAS 5.41 are also suitable in case of first-time adoption of IPSASs. • Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity. • Relief provided by IFRS 1 for IAS 23 is not appropriate for IPSASs as it refers to the 2007 version of IAS 23. 	

Transitional issues related to IPSAS 6, Consolidated and Separate Financial Statements

Accounting issue:	Requirement to present consolidated financial statements at first-time adoption of accrual IPSASs and relief to fully eliminate balances, transactions, revenues, and expenses between entities within the economic entity (IPSAS 6.45)	
Transitional Provisions in IPSAS:		Transitional Provisions in IFRS 1:
<p>According to IPSAS 6.15 a controlling entity is required to present consolidated financial statements at first-time adoption of accrual IPSASs (except for controlling entities as described in IPSAS 6.16).</p> <p>IPSAS 6.65: Entities are not required to comply with the requirement in paragraph 45 concerning the elimination of balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of accrual accounting in accordance with IPSASs.</p> <p>IPSAS 6.67: Where entities apply the transitional provision in paragraph 65, they shall disclose the fact that not all balances and transactions occurring between entities within the economic entity have been eliminated.</p>		No such transitional provisions in IFRS 1.
Proposal for ED:	<p>Staff has identified the following options to provide relief:</p> <ol style="list-style-type: none"> 1. Retain the existing provision in IPSAS 6.65 allowing a grace period of 3 years to eliminate balances and transactions between entities within the economic entity. 2. Allow entities which are not able to do the consolidations for certain entities to not eliminate balances and transactions between those entities within the economic entity but to require appropriate disclosures for those line items which would have been affected by the eliminations. The aim of this approach is to create transparency with respect to overstatement. 3. Provide relief with respect to the presentation of comparative information in the first IPSAS financial statements. 	
Rationale for proposal:	<ul style="list-style-type: none"> • Staff has identified specific issues related to a basis of accounting. For example, scenario 1 entities might face challenges in terms of the number of entities to be consolidated or in terms of the number of balances, transactions, revenues, and expenses to be eliminated between those entities and therefore to present consolidated financial statements at first-time adoption of accrual IPSASs. They might want to present non-consolidated financial statements first and then with some time in between present consolidated financial statements. 	

	<ul style="list-style-type: none"> Based on the proposed alternatives, there seems to be little relief that can be provided regarding the consolidation of information. Both option 1 and option 2 imply time requirements to comply with IPSAS 6. At its March 2012 meeting the IPSASB has expressed the view that transitional provisions that allow a period of time to comply with IPSASs are inappropriate. As long as an entity makes use of such time-based transitional provisions an entity is not in compliance with IPSASs. Therefore relief option no. 1 seems to be unsuitable. In all three options it needs to be discussed whether the provided relief will depend on the basis of accounting used before the transition. Staff would like to note that relief option no. 3 will depend on the outcome of issue 1 in this Issues Paper.
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Accounting issue:	Determination of cost of a controlled entity in separate financial statements (cf. IPSAS 6.58).	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
No transitional provisions.	<p>IFRS 1.D15: If a first-time adopter measures such an investment at cost in accordance with IAS 27, it shall measure that investment at one of the following amounts in its separate opening IFRS statement of financial position:</p> <p>(a) cost determined in accordance with IAS 27; or</p> <p>(b) deemed cost. The deemed cost of such an investment shall be its:</p> <p>(i) fair value at the entity's date of transition to IFRSs in its separate financial statements; or</p> <p>(ii) previous GAAP carrying amount at that date. A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.</p>	
Proposal for ED:	<p>1. Use relief as provided by IFRS 1.D15 in ED and adapt for IPSASs</p> <p>See paragraph 30 et seq. in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> The IPSASB recommended at its March 2012 meeting to provide relief appropriate for a smooth transition. Staff has not identified specific issues related to a basis of accounting. 	

Transitional issues related to IPSAS 7, Investments in Associates

Accounting issue:	Determination of cost of an investment in an associate in separate financial statements (cf. IPSAS 7.41).
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:
No transitional provisions.	<p>IFRS 1.D15: If a first-time adopter measures such an investment at cost in accordance with IAS 27, it shall measure that investment at one of the following amounts in its separate opening IFRS statement of financial position:</p> <p>(a) cost determined in accordance with IAS 27; or</p> <p>(b) deemed cost. The deemed cost of such an investment shall be its:</p> <p>(i) fair value at the entity's date of transition to IFRSs in its separate financial statements; or</p> <p>(ii) previous GAAP carrying amount at that date. A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.</p>
Proposal for ED:	<p>1. Use relief as provided by IFRS 1.D15 in ED and adapt for IPSASs</p> <p>See paragraph 30 et seq. in the draft ED.</p>
Rationale for proposal:	<ul style="list-style-type: none"> • Same rationale as for IPSAS 6. • Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity.

Transitional issues related to IPSAS 8, Interest in Joint Ventures

Accounting issue:	Measurement of jointly controlled assets at first-time adoption (cf. IPSAS 8.22 et seq.).	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
No transitional provisions.	No guidance in IFRS 1 but IFRS 11 clarifies in par. 21 that “A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.”	
Proposal for ED:	<p>1. Clarify that jointly controlled assets and liabilities shall be accounted for in accordance with the IPSAS of first-time adoption of IPSASs applicable to the particular assets and liabilities at first-time adoption of IPSASs.</p> <p>See paragraph 34 in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> IPSAS 8 does not deal with the measurement of existing jointly controlled assets at first-time adoption of IPSASs. Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity. 	

Accounting issue:	Determination of cost of a jointly controlled entity in separate financial statements (cf. IPSAS 8.52).	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
No transitional provisions.	<p>IFRS 1.D15: If a first-time adopter measures such an investment at cost in accordance with IAS 27, it shall measure that investment at one of the following amounts in its separate opening IFRS statement of financial position:</p> <p>(a) cost determined in accordance with IAS 27; or</p> <p>(b) deemed cost. The deemed cost of such an investment shall be its:</p> <p>(i) fair value at the entity's date of transition to IFRSs in its separate financial statements; or</p> <p>(ii) previous GAAP carrying amount at that date. A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.</p>	

Proposal for ED:	1. Use relief as provided by IFRS 1.D15 in ED and adapt for IPSASs See paragraph 30 et seq. in the draft ED.
Rationale for proposal:	<ul style="list-style-type: none"> • Same rationale as for IPSAS 6. • Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity.

Accounting issue:	Requirements related to proportionate consolidation (IPSAS 8.35)	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
<p>IPSAS 8.65: Where the proportionate consolidation treatment set out in this Standard is adopted, venturers are not required to eliminate balances and transactions between themselves, their controlled entities, and entities that they jointly control for reporting periods beginning on a date within three years following the date of first adoption of accrual accounting in accordance with IPSASs.</p> <p>IPSAS 8.67: Where entities apply the transitional provision in paragraph 65, they shall disclose the fact that not all inter-entity balances and transactions have been eliminated.</p>	No such transitional provisions in IFRS 1.	
Proposal for ED:	No final conclusion achieved towards relief related to the presentation of consolidated financial statements at first-time adoption of accrual IPSASs. Staff is of the view that the relief provided with respect to proportionate consolidation should be the same as the relief as provided for the consolidation requirements in IPSAS 6.	
Rationale for proposal:	<ul style="list-style-type: none"> • See rationale for relief as provided by IPSAS 6. • Staff has not identified specific issues related to a basis of accounting. 	

Transitional issues related to IPSAS 11, Construction Contracts

Accounting issue:	Retrospective recognition of contract costs that relate to future activity on the contract as an asset (provided it is probable that they will be recovered) (cf. IPSAS 11.35)	
Transitional Provisions in IPSAS:		Transitional Provisions in IFRS 1:
No transitional provisions, which implies retrospective application according to IPSAS 3.		No transitional provisions, which implies retrospective application according to IAS 8.
Proposal for ED:	1. Do not provide transitional provisions on such contract cost, i.e. require retrospective application.	
Rationale for proposal:	<ul style="list-style-type: none"> IPSAS 11 takes the view that the government is in the role of the contractor. In this case staff is of the view that it should be assumed that entities are able to retrieve such information and to determine contract costs according to IPSAS 11.23, irrespective of the basis of accounting. The same argument applies to the disclosure requirements in IPSAS 11.50. Staff has not identified specific issues related to a basis of accounting. 	

Transitional issues related to IPSAS 12, Inventories

Accounting issue:	Determining of cost for initial recognition of inventories (cf. IPSAS 12.15 et seq.)	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
No transitional provisions, which implies retrospective application according to IPSAS 3.	No transitional provisions, which implies retrospective application according to IAS 8.	
Proposal for ED:	<ol style="list-style-type: none"> 1. Provide relief where an entity is unable to measure inventories at the lower of cost and net realizable value at initial recognition (cf. IPSAS 12.15): Allow to measure inventories at net realizable value at the date of transition to IPSASs as its deemed cost. 2. Provide relief where an entity is unable to measure the cost for inventories acquired through a non-exchange transaction at their fair value <i>as at the date of acquisition</i> (cf. IPSAS 12.16): Allow to measure inventories at net realizable value at the date of transition to IPSASs as its deemed cost. 3. Provide relief where an entity is unable to measure inventories at the lower of cost and current replacement cost where they are held for (a) distribution at no charge or for a nominal charge; or (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge (cf. IPSAS 12.17): Allow to measure inventories at current replacement cost at the date of transition to IPSASs as its deemed cost. <p>See paragraph 35 an 36 in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> • Entities might have problems in determining the required measurement values of IPSAS 12.15 to IPSAS 12.17 retrospectively. For example an entity might not know what the cost of certain types of inventory are if they were acquired some time ago (e.g. land that was acquired some time ago but is held for sale to the community). • Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity. 	

Transitional issues related to IPSAS 16, Investment Property

Accounting issue:	Measurement of investment property at first-time adoption of IPSASs	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
<p>IPSAS 16.91: An entity that adopts accrual accounting for the first time in accordance with IPSASs shall initially recognize investment property at cost or fair value. For investment properties that were acquired at no cost, or for a nominal cost, cost is the investment property's fair value as at the date of acquisition.</p> <p>Please note that IPSAS 16.91 corresponds to IPSAS 17.96.</p>	<p>IFRS 1.D5-D7: An entity may elect to measure an item of investment property at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date (if the entity elects to use the cost model in IAS 40, <i>Investment Property</i> (see IFRS 1.D7)).</p> <p>IFRS 1.D6: A first-time adopter may elect to use a previous GAAP revaluation of an item of investment property at, or before, the date of transition to IFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:</p> <ul style="list-style-type: none"> (a) fair value; or (b) cost or depreciated cost in accordance with IFRSs, adjusted to reflect, for example, changes in a general or specific price index. 	
Proposal for ED:	<p>1. Allow for deemed cost approach for investment property subsequently measured at cost as provided by IFRS 1.D5-D7 also under IPSAS at first-time adoption.</p> <p>See paragraph 38 and 39 in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> • The adoption of a deemed cost approach under IPSASs clarifies for subsequent depreciation that the entity had initially recognized the asset at the given date (i.e. the date of transition to IPSASs) and that its cost was equal to the deemed cost (see also paragraph 12 of the ED for further explanation of the deemed cost approach). • As the provision in paragraph 38 is an (optional) exemption a (historical) cost approach (as currently allowed under IPSAS 16.91) is still possible, i.e. next to the deemed cost approach. • Please note that the use of deemed cost at the first-time adoption of accrual basis IPSASs is not seen as a revaluation or the application of the fair value model for subsequent measurement. • Staff has not identified specific issues related to a basis of accounting. 	

Transitional issues related to IPSAS 17, Property, Plant and Equipment

Accounting issue:	Recognition of property, plant and equipment at first-time adoption of IPSASs	
Transitional Provisions in IPSAS:		Transitional Provisions in IFRS 1:
IPSAS 17.95: Entities are not required to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs.		No transitional provisions.
Proposal for ED:	<ol style="list-style-type: none"> 1. Not allow for such an exemption based on time. 2. Provide transitional provision for entities which are in the process of adopting IPSAS 17 using the existing transitional provisions. 	
Rationale for proposal:	<ul style="list-style-type: none"> • In its March 2012 meeting the IPSASB considered transitional provisions that allow a period of time to comply with IPSASs as inappropriate. • Entities which have already made use of IPSAS 17.95 should be given appropriate assurance to continue with that approach. 	

Accounting issue:	Measurement of property, plant and equipment at first-time adoption of IPSASs	
Transitional Provisions in IPSAS:		Transitional Provisions in IFRS 1:
<p>IPSAS 17.96: An entity that adopts accrual accounting for the first time in accordance with IPSASs shall initially recognize property, plant, and equipment at cost or fair value. For items of property, plant, and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition.</p> <p>Please note that IPSAS 17.96 corresponds to IPSAS 16.91.</p>		<p>IFRS 1.D5-D7: An entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date (if the entity elects to use the cost model in IAS 40, <i>Investment Property</i> (see IFRS 1.D7)).</p> <p>IFRS 1.D6: A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:</p> <ol style="list-style-type: none"> (a) fair value; or (b) cost or depreciated cost in accordance with IFRSs, adjusted to reflect, for example, changes in a general or specific price index.
Proposal for ED:	<ol style="list-style-type: none"> 1. Allow for deemed cost approach as provided by IFRS 1.D5-D7 also under IPSAS at first-time adoption. <p>See paragraph 42 and 43 in the draft ED.</p>	

Rationale for proposal:

- Corresponds to the rationale for the measurement of investment property at first-time adoption.
- Staff has not identified specific issues related to a basis of accounting.

Transitional issues related to impairment

Transitional issues related to IPSAS 21, Impairment of Non-Cash-Generating Assets

Accounting issue:	Retrospective application of IPSAS 21	
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:	
IPSAS 21.80: This Standard shall be applied prospectively from the date of its application. Impairment losses (reversals of impairment losses) that result from adoption of this IPSAS shall be recognized in accordance with this Standard (i.e., in surplus or deficit).	No transitional provisions, which implies retrospective application according to IAS 8.	
Proposal for ED:	<ol style="list-style-type: none"> 1. Staff recommends to keep the relief as provided by IPSAS 21.80 within the suite of IPSASs and to incorporate the first sentence of IPSAS 21.80 in the ED. 2. The reference point for prospective application shall be the date of transition to IPSASs. 3. IPSAS 21.80 shall be deleted. <p>See paragraph 25 in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> • Because impairments are an assessment made at a specific point in time, it may be difficult or virtually inappropriate to apply IPSAS 21 retrospectively. (Please note that this is comparable to the treatment of estimates under IFRS 1). • The IPSASB recommended at its March 2012 meeting to provide relief appropriate for a smooth transition. • As the reference to the 'date of its application' is not clearly defined in the context of first-time adoption, the reference should be made to the 'date of transition to IPSASs'. • The first sentence of IPSAS 21.80 only applies to the first-time adoption of accrual IPSASs and should therefore be deleted in IPSAS 21. • Staff is of the view that the second sentence of IPSAS 21.80 can also be deleted and should not be incorporated into the ED as it is just a clarification. • Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity. 	

Transitional issues related to IPSAS 26, Impairment of Cash-Generating Assets

Accounting issue:	Retrospective application of IPSAS 26	
Transitional Provisions in IPSAS:		Transitional Provisions in IFRS 1:
<p>No transitional provisions.</p> <p>Please note that unlike IPSAS 21.80, IPSAS 26 does not provide a (mandatory) exception which implies the retrospective application of IPSAS 26 according to IPSAS 3.</p>		<p>No transitional provisions, which implies retrospective application according to IAS 8.</p>
Proposal for ED:	<p>1. Staff recommends to provide the same relief for IPSAS 26 as provided by IPSAS 21.80.</p> <p>See paragraph 25 in the draft ED.</p>	
Rationale for proposal:	<ul style="list-style-type: none"> • Same rationale as for IPSAS 21. • Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity. 	

Transitional issues related to the initial recognition of inventories, investment property/ property, plant, and equipment/ biological assets or produce

Accounting issue:	Effect of the initial recognition of investment property/ property, plant, and equipment/ biological assets or produce
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:
IPSAS 16.92: The entity shall recognize the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSASs. IPSAS 17.97 and IPSAS 27.55 provide comparable transitional provisions.	No transitional provisions.
Proposal for ED:	<p>1. Effect of the initial recognition of investment property/ property, plant, and equipment/ biological assets or produce should be recognized as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which IPSASs are first applied.</p> <p>See paragraph 41, 44 and 45 in the draft ED.</p>
Rationale for proposal:	<ul style="list-style-type: none"> The proposed transitional provisions clarifies the accounting treatment of the initial recognition of those assets. Please note that this is in line with how IPSAS 3 requires an entity to adjust for changes in accounting policies. Staff has not identified specific transitional issues that would be effected by the previous basis of accounting applied by an entity.

To be consistent, staff proposes to also have this paragraph for **inventories** (see proposed paragraph 37 of the draft ED).

Questions for the IPSASB:

Staff asks the Board whether it agrees with:

- (a) The proposed transitional provisions;
- (b) The rationale for the proposed transitional provisions.

With respect to the requirement to present consolidated financial statements according to IPSAS 6 staff asks the Board if it agrees that in case of the requirement to present consolidated financial statements time-based relief (option 1 or option 2) is an appropriate approach towards transitional provisions. If the IPSASB does not agree, staff asks for further directions.

Issue 3: Review of first working draft of an ED

Introductory remarks to the first draft of the ED

- Staff used IFRS 1 as a starting point for drafting the ED. The version of the IASB's bound volume 2011 was used, i.e. including amendments issued up to December 31, 2010.

Proposed Structure of the ED

Staff proposes the following structure for the ED:

Objective

Scope

Definitions

Recognition and Measurement

Opening IPSAS Statement of Financial Position

Accounting Policies

Exceptions to the Retrospective Application of Other IPSASs

Estimates

Impairment of Non-Cash and Cash Generating Assets (IPSAS 21 and IPSAS 26)

Exemptions from Other IPSASs

Cumulative Translation Differences (IPSAS 4)

Borrowing Costs (IPSAS 5)

Investments in Controlled Entities, Jointly Controlled Entities and Associates (IPSAS 6-8)

...

Presentation and Disclosure

Comparative Information

Non-IPSAS Comparative Information

Non-IPSAS Historical Summaries

Explanation of Transition to IPSASs

Reconciliations

Disclosures in Case of Use of Fair Value as Deemed Cost for an Item of Property, Plant and Equipment, an Investment Property or an Intangible Asset

Disclosures in Case of Use of Deemed Cost for Investments in Controlled Entities, Jointly Controlled Entities and Associates

...

Effective Date [currently not included in the ED]

Basis for Conclusions [currently not included in the ED]

Implementation Guidance

Amendments to Other IPSASs

Background to the proposed structure

As the first-time adoption of accrual basis IPSASs project is not a convergence project, staff decided not to retain the structure as provided by IFRS 1.

Staff decided to move the transitional provisions provided by the appendices of IFRS 1 in the body of the ED. Staff was of the view that the structure of IFRS 1 is confusing for users as transitional provisions for certain areas are spread all over the standard (e.g. for financial instruments or the use of deemed cost). The advantage of the IFRS 1 structure would be that the Standard can be updated easily when new standards are issued. Because of the ease of use and the focus on the needs of the users staff decided to move the appendices provided by IFRS 1 in the body of the proposed Standard.

Currently, staff decided to retain the distinction between (mandatory) exceptions and (voluntary) exemptions in the structure of the ED. The disadvantage of this distinction is that possibly not all issues related to a certain area (e.g. financial instruments) are grouped together.

The section “Amendments to Other IPSASs” is necessary as the current transitional provisions in IPSASs will need to be revised when the Standard on First-time Adoption of Accrual Basis IPSAS will be pronounced.

Questions for the IPSASB:

Staff asks the Board whether it agrees with the proposed structure of the Standard. Staff specifically requests the Board's views on:

- (a) whether the Board wants to cover all transitional issues related to a certain area in one section of the ED; or
- (b) whether the Board wants to retain the distinction between exceptions and exemptions in the existing structure (this implies that not all transitional issues related to a certain area will be covered in one section of the ED).

Changes made to IFRS 1 based on the comments received at the Duesseldorf meeting:

A. Regarding the Scope

- Staff made changes to IFRS 1 to reflect that the Standard on First-time Adoption of Accrual Basis IPSASs applies to scenario 1 (cash) as well as to scenario 2 (accrual) entities (please refer to paragraph 1(b)).
- The discussion in paragraph 11 outlines the IPSASB's understanding of basis of accounting and acknowledges the practical difficulties in differing between entities applying the cash basis or the accrual basis of accounting.
- In paragraph 3 staff added a sub-paragraph (a) in order to reflect that the IPSAS on first-time adoption of accrual basis IPSASs also applies in case where an entity formerly applied the Cash Basis IPSAS and now applies accrual basis IPSASs.
- Staff drafted a paragraph to reflect that the IPSASB acknowledges the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions and to define the scope of IPSASs adoption. Other than proposed at the Duesseldorf meeting staff proposes to include that paragraph in the Basis for Conclusion (and not in the Scope section of the ED). The rationale for that would be that this

paragraph would also have to be included in the Scope section of all other IPSASs). Staff proposes the following paragraph for the Basis for Conclusion:

“The IPSASB acknowledges the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions and to define the scope of IPSASs adoption. The decision to adopt IPSASs is a decision which is made by each jurisdiction or entity itself. Despite the fact that IPSAS 1 Par. 28 requires compliance with all the requirements of IPSASs, IPSASs may assist governments and national standard-setters in the development of new standards/guidelines or in the revision of existing standards/guidelines. Also this standard may assist in defining appropriate guidance on the first-time adoption of accrual basis accounting standards.”

Question for the IPSASB:

Staff asks the Board whether it agrees with the proposed paragraph for the Basis for Conclusion.

B. Alignment of accrual basis IPSASs and GFS reporting

- Staff added two paragraphs on the issue of alignment and decided to incorporate them in the Implementation Guidance-part of the paper.

- IGY1. At first-time adoption of accrual basis IPSASs an entity might also want to consider the statistical requirements regarding recognition, measurement as well as presentation of assets and liabilities. Whilst many of the rules, concepts, and procedures used in macroeconomic statistics are based on those used in public sector accounting, there are some fundamental differences between government finance statistics reporting and reporting based on accrual basis IPSASs. By choosing Government Finance Statistics (GFS) aligned policy options during first-time adoption of accrual IPSASs, entities will facilitate production of high quality and timely data for inclusion in their GFS reports.
- IGY2. As the objective of this Standard is to provide a suitable starting point for accounting in accordance with accrual basis IPSAS it does not provide guidance to entities with respect to alignment of GFS reporting and accrual basis IPSASs. In its Consultation Paper, *Alignment of IPSASs and Government Finance Statistics Reporting Guidelines: Resolution of Differences through Convergence and Management*, the IPSASB discusses where guidance on GFS alignment options within the suite of IPSASB's pronouncements will be best addressed. As soon as the IPSASB has made a decision on where alignment guidance will be located, this Standard will provide a reference to it.

Please note, Implementation Guidance accompanies, but is **not** part of an IPSAS.

Question for the IPSASB:

Staff asks the Board whether it agrees with the proposed paragraphs and whether they should be incorporated in the Implementation Guidance section of the proposed Standard.

PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD XX

FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Objective

1. The objective of this IPSAS is to ensure that an entity's first financial statements prepared using accrual basis IPSAS, contain high quality information that:
 - (a) Provides transparent reporting about and better insight into an entity's first-time adoption of accrual basis IPSASs;
 - (b) Provides a suitable starting point for accounting in accordance with accrual basis International Public Sector Accounting Standards (IPSASs) irrespective of the basis of accounting the entity has used before the first-time adoption of IPSASs; and
 - (c) Can be generated at a cost that does not exceed the benefits.

Scope

2. **An entity shall apply this IPSAS in its first accrual basis IPSAS financial statements ("first IPSAS financial statements").**
3. An entity's first IPSAS financial statements are the first annual financial statements in which the entity adopts accrual basis IPSASs ("IPSASs"), by an explicit and unreserved statement in those financial statements of compliance with IPSASs. Financial statements in accordance with IPSASs are an entity's first IPSAS financial statements if, for example, the entity:
 - (a) Prepared its most recent previous financial statements in accordance with the International Public Sector Accounting Standard *Financial Reporting Under the Cash Basis of Accounting*;
 - (b) Presented its most recent previous financial statements:
 - (i) In accordance with national requirements that are not consistent with IPSASs in all respects;
 - (ii) In conformity with IPSASs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IPSASs;
 - (iii) Containing an explicit statement of compliance with some, but not all, IPSASs;
 - (iv) In accordance with national requirements inconsistent with IPSASs, using some individual IPSASs to account for items for which national requirements did not exist; or
 - (v) In accordance with national requirements, with a reconciliation of some amounts to the amounts determined in accordance with IPSASs;
 - (c) Prepared financial statements in accordance with IPSASs for internal use only, without making them available to external users;

- (d) Prepared a reporting package in accordance with IPSASs for consolidation purposes without preparing a complete set of financial statements as defined in IPSAS 1, *Presentation of Financial Statements*; or
 - (e) Did not present financial statements for previous periods.
4. This IPSAS applies when an entity first adopts IPSASs. It does not apply when, for example, an entity:
- (a) Stops presenting financial statements in accordance with national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with IPSASs;
 - (b) Presented financial statements in the previous year in accordance with national requirements and those financial statements contained an explicit and unreserved statement of compliance with IPSASs; or
 - (c) Presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with IPSASs, even if the auditors modified their audit report on those financial statements.
5. This IPSAS does not apply to changes in accounting policies made by an entity that already applies IPSASs. Such changes are the subject of:
- (a) Requirements on changes in accounting policies in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) Specific transitional requirements in other IPSASs.
6. The transitional provisions in other IPSASs apply to changes in accounting policies made by an entity that already uses IPSASs; they do not apply to a first-time adopter's transition to IPSASs, except as specified in paragraph 29.
7. **This Standard applies to all public sector entities other than Government Business Enterprises.**
8. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1.

Definitions

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

Cash basis means a basis of accounting that recognizes transactions and other events only when cash is received or paid.

Date of transition to IPSASs is the beginning of the earliest period for which an entity presents its first IPSAS financial statements.

Deemed cost is an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortization assumes that the entity had initially recognized the asset or liability at the given date and that its cost was equal to the deemed cost.

First accrual basis IPSAS financial statements (“first IPSAS financial statements”) is the first annual financial statements in which an entity adopts accrual basis International Public Sector Accounting Standards (IPSASs), by an explicit and unreserved statement of compliance with IPSASs.

First IPSAS reporting period is the latest reporting period covered by an entity’s first IPSAS financial statements.

First-time adopter is an entity that presents its first IPSAS financial statements.

Opening IPSAS statement of financial position is an entity’s statement of financial position at the date of transition to IPSASs.

Previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting IPSASs.

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

Date of Transition to IPSASs

10. The date of transition to IPSASs depends on the entity’s approach with respect to comparative information. Where an entity is required (see paragraph 47) or elects (see paragraph 48) to present comparative information, the date of transition to IPSASs refers to the beginning of the earliest period for which an entity presents its first IPSAS financial statements. Where an entity elects to not present comparative information in its first IPSAS financial statements the date of transition to IPSASs refers to the beginning of the current period. In both cases, the date of transition to IPSASs is the date for which an opening IPSAS statement of financial position is prepared.

Previous Basis of Accounting

11. The previous basis of accounting could either refer to the cash basis of accounting or to the accrual basis of accounting or to modified versions of both. Whereas according to the cash basis of accounting transactions and other events are recognized only when cash is received or paid, the accrual basis recognizes transactions and other events when they occur and not only when cash or its equivalent is received or paid. Under the accrual basis of accounting, transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. Elements recognized under the accrual basis of accounting are assets, liabilities, net assets/equity, revenue, and expenses. A modified version of the cash basis for example might be characterized by the fact that some but not all transactions and other events might be accounted for according to the accrual basis of accounting. A modified version of the accrual basis of accounting might be characterized by the fact that not all of the assets or liabilities of the entities are recognized in its statement of financial position or only some of the revenues or expenses using the accrual basis of accounting in its statement of financial performance. Because of the modified versions of the cash basis and the accrual basis of accounting the IPSASB recognizes the practical difficulties in differing between entities applying the cash basis or the accrual basis of accounting.

Deemed Cost

12. Deemed cost is a measurement basis for an asset or a liability, which is a substitute for cost at a given date. For the first-time adoption of accrual basis IPSASs, that date is the date of transition to IPSASs. Subsequent depreciation or amortization is based on that deemed cost on the premise that the entity had initially recognized the asset or liability at the given date and that its cost was equal to the deemed cost. For example, an entity may elect an item of property, plant and equipment at fair value at the date of its transition to IPSAS and use that fair value as its deemed cost at that date. Any subsequent depreciation is based on the fair value determined at that date. The use of deemed cost at the first-time adoption of accrual basis IPSASs is not seen as a revaluation or the application of the fair value model for subsequent measurement.

Recognition and Measurement

Opening IPSAS Statement of Financial Position

13. An entity shall prepare and present an opening IPSAS statement of financial position at the date of transition to IPSASs. The opening IPSAS statement of financial position is the starting point for an entity's accounting in accordance with IPSASs.

Accounting Policies

14. On the first-time adoption of IPSASs, an entity shall apply the effects of these Standards retrospectively, except, if required, or otherwise permitted, in this Standard.
15. An entity can claim full compliance with IPSASs only when it has complied with the requirements of all applicable IPSASs effective at that date. According to IPSAS 1.28 the entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs.
16. An entity shall use the same accounting policies in its opening IPSAS statement of financial position and throughout all periods presented in its first IPSAS financial statements. Those accounting policies shall comply with each IPSAS effective at the end of its first IPSAS reporting period, except as specified in paragraphs 21-25.
17. An entity shall apply the versions of those IPSASs effective at the transition date. An entity may apply a new IPSAS that is not yet mandatory if that IPSAS permits early application.
18. Except as described in paragraphs 21-25, an entity shall, in its opening IPSAS statement of financial position:
- (a) Recognize all assets and liabilities whose recognition is required by IPSASs;
 - (b) Not recognize items as assets or liabilities if IPSASs do not permit such recognition;
 - (c) Reclassify items that it recognized in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with IPSASs; and
 - (d) Apply IPSASs in measuring all recognized assets and liabilities.

19. The accounting policies that an entity uses in its opening IPSAS statement of financial position may differ from those that it used for the same date using its previous basis of accounting. The resulting adjustments arise from events and transactions before the date of transition to IPSASs. Therefore, an entity shall recognize those adjustments to the opening balance of accumulated surpluses or deficits (or, if appropriate, another category of net assets/equity) at the date of transition to IPSASs.

Exceptions to the Retrospective Application of Other IPSASs

20. This IPSAS prohibits retrospective application of some aspects of other IPSASs. These exceptions are set out in paragraphs 21-25.

Estimates

21. **An entity's estimates in accordance with IPSASs at the date of transition to IPSASs shall be consistent with estimates made for the same date in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**
22. An entity may receive information after the date of transition to IPSASs about estimates that it had made under the previous basis of accounting. In accordance with paragraph 25, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14, *Events after the Reporting Period*.
23. An entity may need to make estimates in accordance with IPSASs at the date of transition to IPSASs that were not required at that date under the previous basis of accounting. To achieve consistency with IPSAS 14, those estimates in accordance with IPSASs shall reflect conditions that existed at the date of transition to IPSASs. In particular, estimates at the date of transition to IPSASs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date. For non-financial assets, such as property, plant and equipment, estimates about the asset's useful life, residual value or condition reflect management's expectations and judgement at the date of transition to IPSASs.
24. Paragraphs 21-23 apply to the opening IPSAS statement of financial position. They also apply to a comparative period, if presented in an entity's first IPSAS financial statements, in which case the references to the date of transition to IPSASs are replaced by references to the end of that comparative period.

Impairment of Non-Cash and Cash Generating Assets (IPSAS 21 and IPSAS 26)

25. **IPSAS 21, *Impairment of Non-Cash Generating Assets* and IPSAS 26, *Impairment of Cash Generating Assets* shall be applied prospectively from the date of transition to IPSASs.**

Exemptions from Other IPSASs

26. An entity may elect to use one or more of the exemptions contained in paragraphs 27-45. An entity shall not apply these exemptions by analogy to other items.

Cumulative Translation Differences (IPSAS 4)

27. IPSAS 4 requires an entity:
- (a) to 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 (including, if applicable, gains and losses on related hedges) to the statement of financial performance as part of the gain or loss on disposal.
28. However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IPSASs. 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 transition to IPSASs; and
 - (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IPSASs and shall include later translation differences.

Borrowing Costs (IPSAS 5)

29. A first-time adopter may apply the transitional provisions set out in paragraph 41 of IPSAS 5.

Investments in Controlled Entities, Jointly Controlled Entities and Associates (IPSAS 6-8)

30. When an entity prepares separate financial statements, IPSAS 6 requires it to account for its investments in controlled entities, jointly controlled entities, and associates either:
- (a) Using the equity method as described in IPSAS 7;
 - (b) At cost; or
 - (c) As a financial instrument in accordance with IPSAS 29.
31. If a first-time adopter measures such an investment at cost in accordance with IPSAS 6, it shall measure that investment at one of the following amounts in its separate opening IPSAS statement of financial position:
- (a) Cost determined in accordance with IPSAS 6; or
 - (b) Deemed cost. The deemed cost of such an investment shall be its:
 - (i) Fair value (determined in accordance with IPSAS 29) at the entity's date of transition to IPSASs in its separate financial statements; or
 - (ii) Previous basis of accounting carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each controlled entity, jointly controlled entity or associate that it elects to measure using a deemed cost.

Assets and Liabilities of Controlled Entities, Associates and Joint Ventures (IPSAS 6-8)

32. If a controlled entity becomes a first-time adopter later than its controlling entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:
- (a) The carrying amounts that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of transition to IPSASs, if no adjustments were made for consolidation procedures and for any effects arising from the entity combination in which the controlling entity's acquired the controlled entity; or
 - (b) The carrying amounts required by the rest of this IPSAS, based on the controlled entity's date of transition to IPSASs. These carrying amounts could differ from those described in (a):

- (i) When the exemptions in this IPSAS result in measurements that depend on the date of transition to IPSASs.
- (ii) When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the cost model in IPSAS 17, *Property, Plant and Equipment*, whereas the economic entity may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

- 33. However, if a controlling entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the public sector combination in which the entity acquired the controlled entity. Similarly, if a controlling entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.
- 34. Jointly controlled assets and liabilities shall be accounted for in accordance with this IPSAS applicable to the particular assets and liabilities at first-time adoption of IPSASs.

Inventories (IPSAS 12)

- 35. Where an entity is unable to determine cost or fair value for an item of inventory acquired in prior reporting periods, the entity may elect to measure the item of inventory at net realizable value at the date of transition to IPSASs and use that value as its deemed cost at that date.
- 36. Where inventories are held for
 - (a) Distribution at no charge or for a nominal charge; or
 - (b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge; andthe entity is unable to determine cost retrospectively, the entity may elect to measure the item of inventory at current replacement cost at the date of transition to IPSASs and use that value as its deemed cost at that date.
- 37. The entity shall recognize the effect of the initial recognition of inventories as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which IPSASs are first applied.

Investment Property (IPSAS 16)

- 38. If an entity elects to use the cost model in IPSAS 16, *Investment Property*, the entity may elect to measure an investment property at the date of transition to IPSASs at its fair value and use that fair value as its deemed cost at that date.

39. A first-time adopter may elect to use a previous basis of accounting revaluation of an investment property at, or before, the date of transition to IPSASs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
- (a) Fair value; or
 - (b) Cost or depreciated cost in accordance with IPSASs, adjusted to reflect, for example, changes in a general or specific price index.
40. A first-time adopter may have established a deemed cost in accordance with the previous basis of accounting for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a nationalization.
- (a) If the measurement date is *at or before* the date of transition to IPSASs, the entity may use such event-driven fair value measurements as deemed cost for IPSASs at the date of that measurement.
 - (b) If the measurement date is after the date of transition to IPSASs, but during the period covered by the first IPSAS financial statements, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognize the resulting adjustments directly in accumulated surplus or deficit (or if appropriate, another category of net assets/equity) at the measurement date. At the date of transition to IPSASs, the entity shall either establish the deemed cost by applying the criteria in paragraphs 37-42 or measure assets and liabilities in accordance with the other requirements in this IPSAS.
41. The entity shall recognize the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the investment property is initially recognized.

Property, Plant and Equipment (IPSAS 17)

42. An entity may elect to measure an item of property, plant and equipment at the date of transition to IPSASs at its fair value and use that fair value as its deemed cost at that date.
43. The elections in paragraph 39 and 40 are also available for property, plant and equipment.
44. The entity shall recognize the effect of the initial recognition of property, plant, and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant, and equipment is initially recognized.

Agriculture (IPSAS 27)

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

Presentation and Disclosure

46. This IPSAS does not provide exemptions from the presentation and disclosure requirements in other IPSASs.

Comparative Information

47. An entity which has presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements shall present comparative information in its first IPSAS financial statements. Where an entity is required to present comparative information, its first IPSAS financial statements shall include:
- (a) Three statements of financial position, which includes an opening statement of financial position;
 - (b) Two statements of financial performance;
 - (c) Two statements of changes in net assets/equity;
 - (d) Two cash flow statements;
 - (e) A comparison of budget and actual amounts for the current year either as a separate additional financial statement or as a budget column in the financial statements if the entity makes its approved budget publicly available;
 - (f) Related notes, including comparative information and the reconciliation required by paragraph 53.
48. An entity which has not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements is encouraged, but is not required, to present comparative information in its first IPSAS financial statements as described in paragraph 47. As a minimum requirement, an entity shall present, in its first IPSAS financial statements:
- (a) Two statements of financial position, which includes an opening statement of financial position;
 - (b) One statement of financial performance;
 - (c) One statement of changes in net assets/equity;
 - (d) One cash flow statement;
 - (e) A comparison of budget and actual amounts for the current year either as a separate additional financial statement or as a budget column in the financial statements if the entity makes its approved budget publicly available;
 - (f) Related notes, including the reconciliation required by paragraph 55.

Presentation of Budget Information

49. When an entity makes publicly available its approved budget, the entity shall present a comparison of budget and actual amounts in its first IPSAS financial statements either as a separate additional financial statement or as a budget column in the financial statements only for the end of the first IPSAS reporting period.

Non-IPSAS Comparative Information

50. Some entities may present comparative information in accordance with the previous basis of accounting as well as the minimum comparative information required by paragraph 48 or the

voluntarily prepared comparative information in accordance with paragraph 48. In any financial statements containing comparative information in accordance with the previous basis of accounting, an entity shall:

- (a) Label the information prepared using the previous basis of accounting information as not being prepared in accordance with IPSASs; and
- (b) Present the reconciliation required by paragraphs 53 or 55.

Non-IPSAS Historical Summaries

51. Some entities present historical summaries of selected data for periods before the first period for which they present financial statements in accordance with IPSASs. This IPSAS does not require such summaries to comply with the recognition and measurement requirements of IPSASs. In any financial statements containing historical summaries in accordance with the previous basis of accounting, an entity shall:

- (a) Label the previous basis of accounting information prominently as not being prepared in accordance with IPSASs; and
- (b) Disclose the nature of the main adjustments that would make it comply with IPSASs. An entity need not quantify those adjustments.

Explanation of Transition to IPSASs

52. **An entity shall explain how the transition from the previous basis of accounting to IPSASs affected its reported financial position, financial performance and cash flows.**

Reconciliations

53. **Where an entity has presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements, the entity's first IPSAS financial statements shall include:**

- (a) **Reconciliations of its net assets/equity reported in accordance with the previous basis of accounting to its net assets/equity in accordance with IPSASs for both of the following dates:**
 - (i) **The date of transition to IPSASs; and**
 - (ii) **The end of the latest period presented in the entity's most recent annual financial statements in accordance with the previous basis of accounting.**
- (b) **A reconciliation to its surplus or deficit in accordance with IPSASs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be surplus or deficit in accordance with the previous basis of accounting for the same period.**

The reconciliations required by paragraph 53(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of financial performance.

54. **If an entity presented a cash flow statement under its previous basis of accounting, it shall also explain the material adjustments to the cash flow statement.**

55. Where an entity has not presented a statement of financial position and a statement of financial performance using the accrual basis of accounting in its previous financial statements (paragraph 48), an entity's first IPSAS financial statements shall include a reconciliation of its closing balances reported in accordance with the previous basis of accounting for the previous period to its net assets/equity in accordance with IPSASs for the date of transition to IPSASs.

The reconciliations required by this paragraph shall give sufficient detail to enable users to understand the material differences between the closing balances reported in accordance with the previous basis of accounting and the net assets/equity in accordance with IPSASs.

56. If an entity presented a statement of cash receipts and payments or a cash flow statement under its previous basis of accounting, it shall also explain the material adjustments to the cash flow statement.
57. If an entity becomes aware of errors made under the previous basis of accounting, the reconciliations required by paragraph 53(a) and (b) or 55 shall distinguish the correction of those errors from changes in accounting policies.
58. IPSAS 3 does not apply to the changes in accounting policies an entity makes when it adopts IPSASs or to changes in those policies until after it presents its first IPSAS financial statements. Therefore, IPSAS 3's requirements about changes in accounting policies do not apply in an entity's first IPSAS financial statements.
59. If an entity did not present financial statements for previous periods, its first IPSAS financial statements shall disclose that fact.

Disclosures in Case of Use of Fair Value as Deemed Cost for an Item of Property, Plant and Equipment, an Investment Property or an Intangible Asset

60. If an entity uses fair value in its opening IPSAS statement of financial position as deemed cost for an item of investment property or property, plant and equipment (see paragraphs 38-44), the entity's first IPSAS financial statements shall disclose, for each line item in the opening IPSAS statement of financial position:
- (a) The aggregate of those fair values; and
 - (b) The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting.

Disclosures in Case of Use of Deemed Cost for Investments in Controlled Entities, Jointly Controlled Entities and Associates

61. If an entity uses a deemed cost in its opening IPSAS statement of financial position for an investment in a controlled entity, jointly controlled entity or associate in its separate financial statements (see paragraph 31), the entity's first IPSAS separate financial statements shall disclose:
- (a) The aggregate deemed cost of those investments for which deemed cost is the carrying amount reported under the previous basis of accounting;
 - (b) The aggregate deemed cost of those investments for which deemed cost is fair value; and

- (c) The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS XX (ED XX)

Please note that the Implementation Guidance represents work in progress and currently only deals with some selected issues.

Accounting Policies

IGX1. In case that the end of an entity's first IPSAS reporting period is 31 December 20X4 and the entity presents comparative information in its first IPSAS financial statements in accordance with paragraph 47 or 48 its date of transition to IPSASs is the beginning of business on 1 January 20X3 (or, equivalently, close of business on 31 December 20X2). The entity continues to present financial statements in accordance with its previous basis of accounting annually to 31 December each year up to, and including, 31 December 20X3.

The entity is required to apply the IPSASs effective for periods ending on 31 December 20X4 in:

- (a) preparing and presenting its opening IPSAS statement of financial position at 1 January 20X3; and
- (b) preparing and presenting its statement of financial position for 31 December 20X4 (including comparative amounts for 20X3), statement of financial performance, statement of changes in net assets/equity and cash flow statements for the year to 31 December 20X4 (including comparative amounts for 20X3), a comparison of budget and actual amounts for 31 December 20X4 when the entity makes publicly available its approved budget and disclosures (including comparative information for 20X3).

If a new IPSAS is not yet mandatory but permits early application, the entity is permitted, but not required, to apply that IPSAS in its first IPSAS financial statements.

IGX2. In case that the end of an entity's first IPSAS reporting period is 31 December 20X4 and the entity elects to use the minimum requirement in accordance with paragraph 48, its date of transition to IPSASs is the beginning of business on 1 January 20X4 (or, equivalently, close of business on 31 December 20X3). The entity continues to present financial statements in accordance with its previous basis of accounting annually to 31 December each year up to, and including, 31 December 20X3.

The entity is required to apply the IPSASs effective for periods ending on 31 December 20X4 in:

- (a) preparing and presenting its opening IPSAS statement of financial position at 1 January 20X4; and
- (b) preparing and presenting its statement of financial position for 31 December 20X4, statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year to 31 December 20X4, a comparison of budget and actual amounts for 31 December 20X4 when the entity makes publicly available its approved budget and disclosures.

If a new IPSAS is not yet mandatory but permits early application, the entity is permitted, but not required, to apply that IPSAS in its first IPSAS financial statements.

Alignment of Accrual IPSASs and Government Finance Statistics Reporting

IGY1. At first-time adoption of accrual basis IPSASs an entity might also want to consider the statistical requirements regarding recognition, measurement as well as presentation of assets and liabilities. Whilst many of the rules, concepts, and procedures used in macroeconomic statistics are based on those used in public sector accounting, there are some fundamental differences between government finance statistics reporting and reporting based on accrual basis IPSASs. By choosing Government Finance Statistics (GFS) aligned policy options during first-time adoption of accrual IPSASs, entities will facilitate production of high quality and timely data for inclusion in their GFS reports.

IGY2. As the objective of this Standard is to provide a suitable starting point for accounting in accordance with accrual basis IPSAS it does not provide guidance to entities with respect to alignment of GFS reporting and accrual basis IPSASs. In its Consultation Paper, *Alignment of IPSASs and Government Finance Statistics Reporting Guidelines: Resolution of Differences through Convergence and Management*, the IPSASB discusses where guidance on GFS alignment options within the suite of IPSASB's pronouncements will be best addressed. As soon as the IPSASB has made a decision on where alignment guidance will be located, this Standard will provide a reference to it.

Estimates

IGZ1. According to paragraph 21 an entity's estimates in accordance with IPSASs at the date of transition to IPSASs shall be consistent with estimates made for the same date in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. An entity may receive information after the date of transition to IPSASs about estimates that it had made under the previous basis of accounting. In accordance with paragraph 22, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14, *Events after the Reporting Period*.

IGZ2. For example, assume that an entity's date of transition to IPSASs is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made in accordance with the previous basis of accounting at 31 December 20X3. The entity shall not reflect that new information in its opening IPSAS statement of financial position (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in surplus or deficit for the year ended 31 December 20X4.

...

Amendments to Other IPSASs

IPSAS 1, *Presentation of Financial Statements*

Paragraphs 151 and 152 are deleted:

~~151. All provisions of this Standard shall be applied from the date of first adoption of this Standard, except in relation to items that have not been recognized as a result of transitional provisions under another IPSAS. The disclosure provisions of this Standard would not be required to apply to such items until the transitional provision in the other IPSAS expires. Comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs.~~

~~152. Notwithstanding the existence of transitional provisions under another IPSAS, entities that are in the process of adopting the accrual basis of accounting for financial reporting purposes are encouraged to comply in full with the provisions of that other Standard as soon as possible.~~

IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 19 is deleted:

~~19. A change from one basis of accounting to another basis of accounting is a change in accounting policy.~~

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 67 and 68 are deleted:

~~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 IPSASs. 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 IPSASs; 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 of IPSASs, and shall include later translation differences.~~

~~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.~~

IPSAS 16, Investment Property

Paragraphs 91-93 are deleted:

- ~~91. — An entity that adopts accrual accounting for the first time in accordance with IPSASs shall initially recognize investment property at cost or fair value. For investment properties that were acquired at no cost, or for a nominal cost, cost is the investment property's fair value as at the date of acquisition.~~
- ~~92. — The entity shall recognize the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSASs.~~
- ~~93. — Prior to first adoption of accrual accounting in accordance with IPSASs, an entity (a) may recognize investment property on a basis other than cost or fair value as defined in this Standard, or (b) may control investment property that it has not recognized. This Standard requires entities to initially recognize investment property at cost or fair value as at the date of first adoption of accrual accounting in accordance with IPSASs. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the investment property's fair value as at the date of acquisition. Where the cost of acquisition of an investment property is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.~~

IPSAS 17, Property, Plant and Equipment

Paragraphs 95-106 are deleted:

- ~~95. — Entities are not required to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs.~~
- ~~96. — An entity that adopts accrual accounting for the first time in accordance with IPSASs shall initially recognize property, plant, and equipment at cost or fair value. For items of property, plant, and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition.~~
- ~~97. — The entity shall recognize the effect of the initial recognition of property, plant, and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant, and equipment is initially recognized.~~
- ~~98. — Prior to first application of this Standard, an entity may recognize its property, plant, and equipment on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognized. This Standard requires entities to initially recognize items of property, plant, and equipment at cost or, fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset's fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.~~
- ~~99. — IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an item of property, plant, and equipment at cost in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.~~
- ~~100. — Paragraph 14 of this Standard requires the cost of an item of property, plant, and equipment to be recognized as an asset if, and only if:~~
- ~~(a) — It is probable that future economic benefits or service potential associated with the item will flow to the entity; and~~
 - ~~(b) — The cost or fair value of the item can be measured reliably.~~

- ~~101. The transitional provisions in paragraphs 95 and 96 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with IPSASs, with effect from the effective date of this Standard or subsequently. When entities adopt accrual accounting in accordance with IPSASs for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of assets. For this reason, for a five-year period following the date of first adoption of accrual accounting in accordance with IPSASs, entities are not required to comply fully with the requirements of paragraph 14.~~
- ~~102. Notwithstanding the transitional provisions in paragraph 95 and 96, entities that are in the process of adopting accrual accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.~~
- ~~103. The exemption from the requirements of paragraph 14 implies that the associated measurement and disclosure provisions of this Standard do not need to be complied with in respect of those assets or classes of asset that are not recognized under paragraphs 95 and 96.~~
- ~~104. When an entity takes advantage of the transitional provisions in paragraphs 95 and 96, that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 95 shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but that are now recognized shall be disclosed.~~
- ~~105. For entities that have previously applied IPSAS 17 (2001), the requirements of paragraphs 38–40 regarding the initial measurement of an item of property, plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.~~
- ~~106. Transitional provisions in IPSAS 17 (2001) provide entities with a period of up to five years to recognize all property, plant, and equipment and make the associated measurement and disclosure from the date of its first application. Entities that have previously applied IPSAS 17 (2001) may continue to take advantage of this five-year transitional period from the date of first application of IPSAS 17 (2001). These entities shall also continue to make disclosures required by paragraph 104.~~

IPSAS 21, Impairment of Non-Cash Generating Assets

Paragraphs 80 and 81 are deleted:

- ~~80. This Standard shall be applied prospectively from the date of its application. Impairment losses (reversals of impairment losses) that result from adoption of this IPSAS shall be recognized in accordance with this Standard (i.e., in surplus or deficit).~~
- ~~81. Before the adoption of this Standard, entities may have adopted accounting policies for the recognition and reversal of impairment losses. On adoption of this Standard, a change in accounting policy may arise. It would be difficult to determine the amount of adjustments resulting from a retrospective application of the change in accounting policy. Therefore, on adoption of this Standard, an entity shall not apply the benchmark or the allowed alternative treatment for other changes in accounting policies in IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.~~