

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** December 3–6, 2012

## Agenda Item 7

For:

☐ Approval

☐ Discussion

☒ Information

### First-Time Adoption of Accrual Basis IPSASs

#### Objectives of Agenda Item

1. Provide a revised assessment of proposed transitional provisions of IPSAS 1 to IPSAS 18 based on a set of pre-defined criteria and concluding proposals for the ED on First-time Adoption of Accrual Basis IPSASs for **review** by the IPSASB.
2. Provide an assessment of transitional provisions of IPSAS 19 to IPSAS 22, IPSAS 24, IPSAS 26 to IPSAS 27 and IPSAS 31 based on a set of pre-defined criteria, and concluding proposals for the ED on First-time Adoption of Accrual Basis IPSASs for **review** and **discussion** by the IPSASB.
3. Provide an overview of the proposed reconciliation requirements at first-time adoption of accrual basis IPSASs and a discussion about the proposed requirements for disclosure of narrative information about material adjustments in an entity's first IPSAS financial statements for **review** and **discussion** by the IPSASB.
4. Provide an overview of a Draft Exposure Draft, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards* based on the decisions reached at the September 2012 meeting for **review** and **discussion** by the IPSASB.

#### Materials Presented

Agenda Item 7.1	Issues Paper on the Assessment of Transitional Accounting Issues of IPSAS 1 to IPSAS 18 (Revised Version Based on the Results of the September 2012 Meeting)
Agenda Item 7.2	Issues Paper on The Assessment of Transitional Accounting Issues of IPSAS 19 to IPSAS 22, IPSAS 24, IPSAS 26 to IPSAS 27 and IPSAS 31
Agenda Item 7.3	Issues Paper on Reconciliation Requirements at First-time Adoption of Accrual Basis IPSASs
Agenda Item 7.4	Draft Exposure Draft, <i>First-Time Adoption of Accrual Basis International Public Sector Accounting Standards</i>

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# ISSUES PAPER ON THE ASSESSMENT OF TRANSITIONAL ACCOUNTING ISSUES OF IPSAS 1 TO IPSAS 18 (REVISED VERSION BASED ON THE RESULTS OF THE SEPTEMBER 2012 MEETING)

## Objective of Issues Paper

1. The objective of this Issues Paper is to:
  - **Provide** a *revised* assessment of proposed transitional provisions of IPSAS 1 to IPSAS 18 based on a set of criteria and concluding proposals for the ED on First-time Adoption of Accrual Basis IPSASs for **review** by the IPSASB.

## Background

2. At its June 2012 meeting, the IPSASB advised staff to develop a set of criteria, based on user needs as set out in Phase 1 of the Public Sector Conceptual Framework, which will allow the assessment of proposed transitional provisions for the first-time adoption of accrual basis IPSASs.
3. Beginning of August 2012, staff asked for an out-of-session review of an Issues Paper on a “Set of Criteria for the Development of Transitional Provisions at First-Time Adoption of Accrual Basis IPSASs and Selected Examples”. Based on the comments received, for the September 2012 meeting staff has revised the theoretical framework used to develop the set of criteria for the evaluation of transitional provisions.
4. At the September 2012 meeting, the IPSASB confirmed the proposed set of criteria for the assessment of transitional provisions as well as the use of the “Qualitative Characteristics of, and Constraints on, Information Included in GPFRs” as outlined in CF–ED1. As the fair presentation consideration might lead to the conclusion that specific transitional provisions could not be provided it was suggested that practical complexities or difficulties of a transitional accounting issue should be considered as a separate criterion in the assessment of transitional provisions.
5. Furthermore, it was recommended that there should be a differentiation between transitional provisions which (a) allow for fair presentation, and (b) transitional provisions where an entity will likely not be able to assert fair presentation at first-time adoption, but relief is necessary because of the complexity of the issue or because of the practical difficulties. For the latter category the ED should alert entities where the use of a transitional provision might not lead to fair presentation.
6. Based on these views by the IPSASB, staff has revised (a) the approach for the assessment of transitional provisions at first-time adoption of accrual basis IPSASs, (b) the assessment of transitional provisions for IPSAS 1 to IPSAS 18, and (c) the Draft ED.

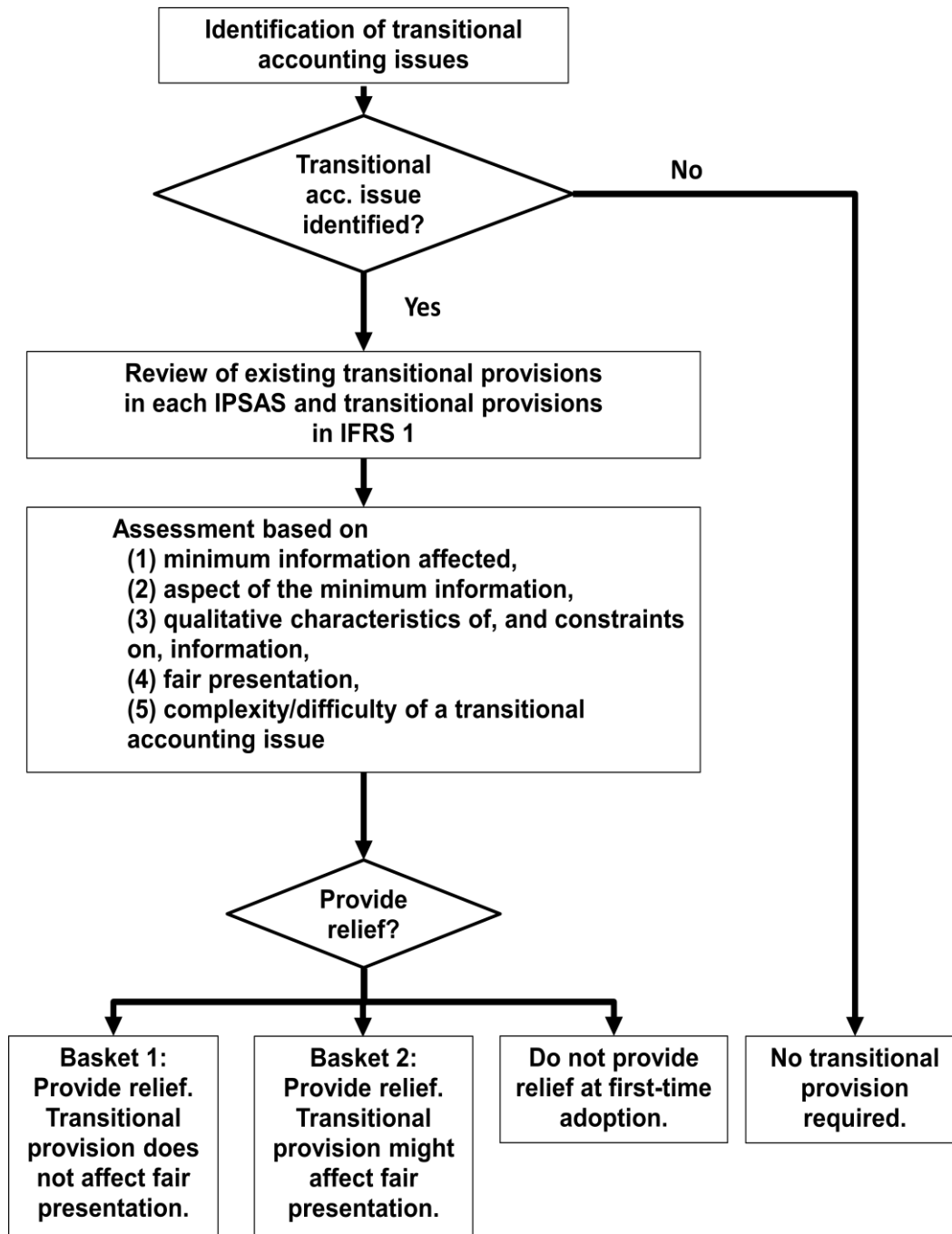
**Revised Approach for the Assessment of Transitional Provisions at First-Time Adoption of Accrual Basis IPSASs**

7. For the identification of transitional accounting issues, staff examines each IPSAS whether issues with relevance to first-time adoption of accrual basis IPSASs can be identified. In addition, staff considers existing transitional provisions in each IPSAS, but also takes account of the transitional provisions in IFRS 1 for a specific accounting issue. In staff's view, only a thorough analysis of each IPSAS is able to ensure that issues with relevance to first-time adoption of accrual basis IPSASs are complete.
8. In the September 2012 meeting the IPSASB concluded that the fair presentation consideration might lead to the conclusion that specific transitional provisions could not be provided. The IPSASB suggested that practical complexities or difficulties of a transitional accounting issue should be considered as an additional criterion in the assessment of transitional provisions.
9. In addition, the IPSASB recommended to differentiate between:
  - (a) Transitional provisions which allow for fair presentation (basket 1), and
  - (b) Transitional provisions where an entity will likely not be able to assert fair presentation at first-time adoption of accrual basis IPSASs, but relief is necessary because of the practical complexities or difficulties of the issue (basket 2).

As a result each transitional provision needs to be classified accordingly.

10. Figure 1 summarizes the approach taken by staff for the assessment of transitional provisions at first-time adoption of accrual basis IPSASs:

Figure 1: Approach for the Assessment of Transitional Provisions at First-Time Adoption of Accrual Basis IPSASs



#### Matter for Consideration

1. Members are asked to **confirm** the revised approach for the assessment of transitional provisions at first-time adoption of accrual basis IPSASs.

11. For the September 2012 meeting, staff has analyzed transitional accounting issues for IPSAS 1 to IPSAS 18. For IPSAS 2, 3, 9, 10, 14 and 15 staff has not identified transitional accounting issues which require transitional arrangements for consideration in the First-time Adoption of Accrual Basis IPSAS ED. Staff has not shared the analysis of these Standards with the IPSASB at its September 2012 meeting. In this revised version of the Issues Paper staff has inserted the analysis of those IPSASs which have not been included in the Issues Paper presented to the IPSASB at its September 2012 meeting.
12. In the meantime, based on the IPSASB's recommendation staff has revised the assessments of transitional provisions for IPSASs 1 to 18. In each assessment of a transitional accounting issue staff has now included a consideration of a separate practical complexity/difficulty criterion. Below each assessment staff has also added the decisions reached at the September 2012 meeting.
13. The following table provides an overview of the changes staff has made to the assessments presented at the September 2012 IPSASB meeting.

Figure 1: Overview of Changes Made to the Assessments of IPSAS 1 to IPSAS 18 since IPSASB's September 2012 Meeting and Proposed Transitional Provision

IPSAS and transitional accounting issue	Changes made to the assessments since IPSASB's September 2012 meeting	Proposed transitional provision
IPSAS 1: Presentation of comparative information in an entity's first IPSAS financial statements	Minimum information affected-section added. Basket classification added.	<i>No changes made to the proposed transitional provision:</i> Entities are encouraged to provide comparative information in an entity's first IPSAS financial statements but not required.
IPSAS 2: No transitional accounting issues identified	Analysis inserted.	<i>No transitional provisions related to IPSAS 2 should be provided.</i>
IPSAS 3: No transitional accounting issues identified	Analysis inserted.	<i>No transitional provisions related to IPSAS 3 should be provided.</i>
IPSAS 4: Accounting for cumulative translation differences at first-time adoption of IPSASs	<ul style="list-style-type: none"> <li>Consideration of practical complexity/difficulty criteria added.</li> <li>Basket classification added.</li> </ul>	<i>No changes made to the proposed transitional provision:</i> The existing transitional provisions in IPSAS 4 related to first-time adoption should be incorporated in the first-time adoption ED.

IPSAS 4: Translation to the presentation currency	<ul style="list-style-type: none"> <li>The issue was raised by the Chair at the September 2012 meeting of the IPSASB.</li> <li>Staff has provided an analysis of the issue.</li> </ul>	<i>As the issue affects requirements of IPSAS 4 not only at first-time adoption, staff is of the view that no transitional provision related to translation to the presentation currency should be provided in the first-time adoption ED</i>
IPSAS 5: Retrospective capitalization or expensing of borrowing costs	<ul style="list-style-type: none"> <li>Staff revised the entire assessment of the transitional accounting issue based on IPSASB's recommendation that staff should also look at the case where an entity has capitalized borrowing costs under its previous basis of accounting and decides to cease capitalization at first-time adoption.</li> <li>Basket classification added.</li> </ul>	<p><i>No changes made to the proposed transitional provision:</i></p> <p>Staff proposes to keep the existing transitional provision in IPSAS 5, i.e. entities should merely be encouraged to apply IPSAS 5 retrospectively.</p> <p><i>For clarification,</i> staff proposes that where an entity adopts, or changes its accounting policy, to the allowed alternative treatment for borrowing costs, the entity should be allowed to apply the requirements of IPSAS 5 prospectively to qualifying assets.</p>
IPSAS 5: Partly retrospective capitalization of borrowing costs where entities follow the allowed alternative treatment	<ul style="list-style-type: none"> <li>Staff revised its proposal for an alternative transitional provision to not apply IPSAS 5 retrospectively based on the transitional provisions in IAS 23.</li> <li>Basket classification added.</li> </ul>	<p><i>Revised proposal:</i> Staff proposes as an alternative transitional provision that those entities should be allowed to capitalize only those borrowing costs incurred after a specific date. An entity is allowed to designate any date before the date of transition to IPSASs and apply IPSAS 5 to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date.</p>
IPSAS 5: Partly retrospective expensing of capitalized borrowing costs where entities follow the benchmark treatment	<ul style="list-style-type: none"> <li>Based on IPSASB's recommendation that staff should also look at the case where an entity has capitalized borrowing costs under its previous basis of accounting and decides to cease capitalization at first-time adoption staff has performed an assessment of also an alternative transitional provision based on the transitional provisions used in IAS</li> </ul>	<p><i>New proposal:</i> Staff proposes as an alternative transitional provision that those entities should be allowed to expense those borrowing costs incurred after a specific date. An entity is allowed to designate any date before the date of transition to IPSASs and expense borrowing costs relating to all qualifying assets for which the commencement date for capitalization under the previous</p>

	<p>23.</p> <ul style="list-style-type: none"> <li>Basket classification added.</li> </ul>	basis of accounting is on or after that date.
IPSAS 6, 7 and 8: Requirement to present consolidated financial statements at first-time adoption of accrual basis IPSASs	Consideration of practical complexity/difficulty criteria added.	<p><i>No changes made to the proposed transitional provision:</i></p> <p>Staff does not propose any transitional provision relating to the presentation of consolidated financial statements at first-time adoption of accrual basis IPSASs</p>
IPSAS 6, 7 and 8: Requirement to fully eliminate balances, transactions, revenues, and expenses between entities within the economic entity according to IPSAS 6.45 and IPSAS 8.35 where the proportionate consolidation of IPSAS 8 is adopted	<ul style="list-style-type: none"> <li>Consideration of practical complexity/difficulty criteria added.</li> <li>Basket classification added.</li> </ul>	<p><i>Revised proposal based on IPSASB's view expressed at September meeting:</i></p> <p>Based on the practical complexity/difficulty-criterion staff proposes to keep the existing transitional provisions in IPSAS 6 and 8.</p>
IPSAS 6, 7 and 8: Determination of the initial cost of (i) a controlled entity in the separate opening IPSAS statement of financial position; (ii) an investment in an associate in the separate opening IPSAS statement of financial position.	<ul style="list-style-type: none"> <li>Consideration of practical complexity/difficulty criteria added.</li> <li>Basket classification added.</li> </ul>	<p><i>No changes made to the proposed transitional provision:</i></p> <p>Staff proposes to use the relief as provided by IFRS 1.D15 in the ED and adapt for IPSASs.</p>
IPSAS 8: Measurement and recognition of jointly controlled assets and liabilities at first-time adoption (cf. IPSAS 8.22 et seq.)	<ul style="list-style-type: none"> <li>Outlined issue more clearly.</li> <li>Consideration of practical complexity/difficulty criteria added.</li> <li>Basket classification added.</li> </ul>	<p><i>No changes made to the proposed transitional provision:</i></p> <p>Staff proposes to add a clarification that for its jointly controlled assets and liabilities a joint operator is allowed to make use of the respective transitional provisions of the IPSAS on first-time adoption of accrual basis IPSASs.</p>
IPSAS 9: No transitional accounting issues identified	Analysis inserted.	<i>No transitional provisions related to IPSAS 9 should be provided.</i>
IPSAS 10: No transitional accounting issues identified	Analysis inserted.	<i>No transitional provisions related to IPSAS 10 should be provided.</i>
IPSAS 11: Retrospective	Consideration of practical	<i>No changes made to the proposed</i>

recognition of contract costs that relate to future activity on the contract	complexity/difficulty criteria added.	<i>transitional provision:</i>  Do not provide transitional provisions on such contract cost, i.e. require retrospective application as it is assumed that entities will have kept track of these costs.
IPSAS 12: Initial measurement of inventories	<ul style="list-style-type: none"> <li>• Staff revised the assessment based on IPSASB's recommendation that entities should be allowed to use the deemed cost approach where entities have acquired inventories in an exchange transaction and cost information is not available.</li> <li>• Consideration of practical complexity/difficulty criteria added.</li> <li>• Basket classification added.</li> </ul>	<i>Revised proposal based on IPSASB's view expressed at September meeting:</i>  Allow for deemed cost approach based on fair value for all three types of inventories in the ED on first-time adoption except for inventories acquired in an exchange transaction and where cost information for such inventories is available.
IPSAS 13: Retrospective application of IPSAS 13	<ul style="list-style-type: none"> <li>• Staff has not presented this issue to the Board at its September 2012 meeting.</li> <li>• Staff outlined the issue more clearly.</li> <li>• Consideration of practical complexity/difficulty criteria added.</li> <li>• Basket classification added.</li> </ul>	<i>Proposed transitional provision:</i> Staff is of the view that entities should not be required to apply IPSAS 13 retrospectively, irrespective of an entity's previous basis of accounting. Staff proposes to keep the existing transitional provision in IPSAS 13.81 regarding retrospective application of IPSAS 13.
IPSAS 13: Restatement of finance leases by a lessee	<ul style="list-style-type: none"> <li>• Staff has not presented this issue to the Board at its September 2012 meeting.</li> <li>• Staff revised the evaluation based on the qualitative characteristics of, and constraints on, information.</li> <li>• Consideration of practical complexity/difficulty criteria added.</li> <li>• Basket classification added.</li> </ul>	<i>Proposed transitional provision:</i> Staff proposes to keep the existing transitional provision in IPSAS 13.81 regarding measurement.  For entities applying the cash basis under their previous basis accounting staff suggests to provide guidance on how to measure assets acquired under finance leases and associated liabilities for existing finance leases at the date of transition to IPSASs in the Application Guidance of the ED.
IPSAS 14: No transitional accounting issues identified	Analysis inserted.	<i>Staff proposes to not provide transitional provisions related to IPSAS 14, Events after the Reporting Date.</i>



IPSAS 15: No transitional accounting issues identified	Analysis inserted.	<i>Staff proposes to not provide transitional provisions related to IPSAS 15, Financial Instruments: Disclosure and Presentation in the first-time adoption ED.</i>
IPSAS 16: Recognition of investment property at first-time adoption of accrual basis IPSASs	Based on IPSASB's recommendation that staff should consider this issue in its assessment staff has analyzed whether relief for the recognition of investment property at first-time adoption should be provided.	<i>Proposed transitional provision:</i> Entities should not be required to recognize investment property beginning on a date within five years following the date of transition to IPSASs.
IPSAS 16: Initial measurement of investment property	<ul style="list-style-type: none"> <li>As the IPSASB generally supported the view that the deemed cost approach should also be allowed for investment property acquired at no cost, or for a nominal cost, staff has revised the assessment accordingly.</li> <li>Consideration of practical complexity/difficulty criteria added.</li> <li>Basket classification added.</li> </ul>	<i>Changes were made to the 2<sup>nd</sup> proposed transitional provision:</i> <ol style="list-style-type: none"> <li>Allow for deemed cost approach based on fair value for investment property as provided by IFRS 1.D5-D7 also in the ED on first-time adoption if the entity elects to use the cost model in IPSAS 16.</li> <li>Entities should also be allowed to measure investment property acquired at no cost, or for a nominal cost using the deemed cost approach at first-time adoption.</li> </ol>
IPSAS 17: Recognition of property, plant and equipment at first-time adoption of accrual basis IPSASs	<ul style="list-style-type: none"> <li>Consideration of practical complexity/difficulty criteria added.</li> <li>Basket classification added.</li> </ul>	<i>Revised proposal based on IPSASB's view expressed at September meeting:</i>  Based on the practical complexity/difficulty criterion entities should not be required to recognize property, plant, and equipment beginning on a date within five years following the date of transition to IPSASs.

IPSAS 17: Initial measurement of property, plant and equipment	<ul style="list-style-type: none"> <li>• As the IPSASB generally supported the view that the deemed cost approach should also be allowed for property, plant, and equipment acquired at no cost, or for a nominal cost, staff has revised the assessment accordingly.</li> <li>• Consideration of practical complexity/difficulty criteria added.</li> <li>• Basket classification added.</li> </ul>	<p><i>Changes were made to the 2<sup>nd</sup> proposed transitional provision:</i></p> <ol style="list-style-type: none"> <li>1. Allow for deemed cost approach based on fair value as provided by IFRS 1.D5-D7 if the entity elects to use the cost model in IPSAS 17.</li> <li>2. Entities should also be allowed to measure property, plant, and equipment that was acquired at no cost, or for a nominal cost using the deemed cost approach at first-time adoption.</li> </ol>
IPSAS 18: Requirement to disclose financial information by segments	<ul style="list-style-type: none"> <li>• Staff strengthened the rationale why fair presentation might not be affected at first-time adoption.</li> <li>• Consideration of practical complexity/difficulty criteria added.</li> <li>• Basket classification added.</li> </ul>	<p><i>Minor change was made to the proposed transitional provision based on IPSASB's view expressed at September Meeting:</i></p> <p>Staff proposes a transitional provision for reporting segment information based on time which is in line with grace periods given in other standards (e.g. reporting segment information on a date within three years following the date of first adoption of accrual basis IPSASs).</p>

**Matter for Consideration**

2. Members are asked to **review** and **discuss** the revised assessments of proposed transitional provisions based on the revised set of criteria.

## Background material

### Assessment of Transitional Provisions Related to IPSAS 1, *Presentation of Financial Statements*

<b>Accounting issue:</b>	<b>Presentation of comparative information in an entity's first IPSAS financial statements</b>	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
IPSAS 1.151: Comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs.		No such transitional provision in IFRS 1.
In the June 2012 meeting the IPSASB tentatively agreed that an entity should not be required to present comparative information. The current IPSASB approach (i.e. IPSAS 1.151) towards presentation of comparative information was therefore confirmed. The main arguments for not requiring an entity to present comparative information at first-time adoption were (a) cost-benefit considerations, (b) timeliness of information, and (c) practical experiences with the current approach in IPSAS 1 towards the presentation of comparative information at first-time adoption.		
<b>Minimum information affected:</b>	Opening statement of financial position; Statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget) <sup>1</sup> , notes disclosures	
<b>Proposal for ED:</b>	Encourage entities to provide comparative information in an entity's first IPSAS financial statements but not require them to.	
<b>Basket:</b>	As the proposal is (a) a unique feature of IPSASs and (b) an overarching issue at first-time adoption of accrual basis IPSASs, which effects the amount of comparative periods and the scope of information presented in an entity's first IPSAS financial statements, staff is of the view that this transitional provision should be considered as a basket 1 transitional provision. Entities which elect to not present comparative information at first-time adoption of accrual basis IPSASs should not be considered as making use of a basket 2 transitional provision.	

At its **September 2012 meeting** the IPSASB confirmed its view expressed at the June 2012 meeting to only encourage, but not require, entities to provide comparative information in an entity's first IPSAS financial statements.

<sup>1</sup> Depends on whether the IPSASB considers that entities should be required to present such a comparison in its first IPSAS financial statements.

**Assessment of Transitional Provisions Related to IPSAS 2, *Cash Flow Statements***

<b>Accounting issue:</b>	Staff has not identified accounting issues which require transitional provisions at first-time adoption of accrual basis IPSASs. Staff is of the view that a cash flow statement belongs to the minimum information required at first-time adoption of accrual basis IPSASs.
<b>Proposal for ED:</b>	Staff is of the view that no transitional provisions related to IPSAS 2, <i>Cash Flow Statements</i> should be provided in the First-time Adoption ED.

At its **September 2012 meeting** the IPSASB generally supported the view that a cash flow statement belongs to the required minimum information at first-time adoption of accrual basis IPSASs.

**Assessment of Transitional Provisions Related to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors***

<b>Accounting issue:</b>	Staff has not identified accounting issues which require transitional provisions at first-time adoption of accrual basis IPSASs.
<b>Proposal for ED:</b>	Staff is of the view that no transitional provisions related to IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> should be provided in the First-time Adoption ED.

**Assessment of Transitional Provisions Related to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates***

<b>Accounting issue:</b>	<b>Accounting for cumulative translation differences at first-time adoption of IPSASs (cf. IPSAS 4.67)</b>	
<b>Minimum information affected:</b>	Opening statement of financial position; Statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget) <sup>2</sup> , notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
<p>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> <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>		<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 transition to IFRSs; and</p> <p>(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 IFRSs and shall include later translation differences.</p>
<b>Aspect of the minimum information:</b>	All elements should be measured appropriately in an entity's first IPSAS financial statements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes to use the transitional provisions in IPSAS 4 in the first-time adoption ED.</p> <p>Not recognizing cumulative translation differences of foreign operations (as a separate component of net assets/equity, cf. IPSAS 4.44(c)) will not <b>faithfully represent</b> the financial position of an entity. According to para. 44 of IPSAS 4 and together with the principle of retrospective application (IPSAS 3) an entity would be required to present such information. Depending on an entity's operations, this matter can be of <b>relevance</b>. The <b>cost</b> of retrospective application of IPSAS 4 (for example, translating revenue and expenses to the exchange rates at the dates of the transactions for entities with considerable foreign currency transactions,</p>	

<sup>2</sup> Depends on whether the IPSASB considers that entities should be required to present such a comparison in its first IPSAS financial statements.

	<p>cf. IPSAS 4.44(b)) can be high (see also para. 17.10 of Stuy 14). As (national) public sector entities are not likely to have that many foreign operations, the recognition of cumulative translation differences relating to foreign operations is not as common as in the private sector. The benefit of presenting cumulative translation differences of foreign operations for entities with only some or relatively few foreign operations will likely be low.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that the costs of retrospective application of IPSAS 4 for those entities with only some or relatively few foreign operations outweigh faithful representation and relevance and therefore appropriate relief should be provided.</p>
<b>Fair presentation consideration:</b>	<p>Not recognizing cumulative translation differences of foreign operations as a separate component of net assets/equity might affect fair presentation of an entity's financial position at the date of first transition IPSASs. Nevertheless, notes disclosures that explain the accounting for cumulative translation differences before and after the date of first transition to IPSASs will help user to get a better understanding. After the date of first transition to IPSASs, all translation differences will be accounted for according to IPSAS 4. As a result, fair presentation is achieved.</p>
<b>Practical complexity/difficulty:</b>	<p>The accounting policies under previous GAAP may not have required such translation differences for foreign operations to be recorded in the same way than required by IPSAS 4. This might require considerable efforts to identify and recalculate such translation differences upon the adoption of IPSASs and could make it cumbersome to restate the information.</p>
<b>Proposal for ED:</b>	<p>Transitional provisions in IPSAS 4 related to first-time adoption should be incorporated in the first-time adoption ED.</p>
<b>Basket:</b>	<p>Basket 1.</p>

At its **September 2012 meeting** the IPSASB generally supported the view that the transitional provisions of IPSAS 4 shall be incorporated in the first-time adoption ED.

Accounting issue:	Translation to the presentation currency
<p><b>Outline of issue:</b></p>	<p>At the September 2012 meeting the Chairman outlined a case where entities had problems with the requirement of IPSAS 4.44 (b) where revenue and expenses shall be translated at exchange rates at the dates of the transaction. In his case the entities were required to use a monthly fixed organization-wide exchange rate. Typically, this exchange rate is determined by headquarters of the organization and every (domestic or foreign) unit and sometimes even controlled entities within the organization are required to apply that rate until the rate for the next month is set. Governments as well as international governmental organizations are typical examples for such a practice. Background for such centralized fixed rates is that foreign currency exchange rates differ from country to country and are often not at a comparable level between countries. A standardized exchange rate within the organization ensures that there are no foreign exchange rate differences due to the different locations of the units/entities within the organization. Also administrative laws, including budget laws, often require such monthly fixed organization-wide exchange rates. Cash payments usually need to be authorized by administrative act by a superior level of government. Any discrepancy of the transaction amount from the authorized amount would be regarded as illegal. In addition, authorizations are usually only possible in the functional currency. A system with monthly fixed organization wide exchange rates ensures that governments are able to maintain legality of their foreign currency transactions.</p> <p>The IPSASB discussed that this issue might only be of relevance where exchange rates are volatile. If exchange rates are volatile the issue could become material to an entity's first IPSAS financial statements. In practice, the underlying IT systems do cater for volatility. If fluctuations exceed a defined threshold, the internal exchange rate is changed prior to the next regular adjustment date.</p>
<p><b>Analysis by staff:</b></p>	<p>Based on the analysis above staff concludes that this issue not only occurs at first-time adoption, but also occurs in subsequent periods after first-time adoption. Therefore, the issue is not only within the scope of the first-time adoption project.</p> <p>Staff also would like to note that this issue also affects the requirement in IPSAS 4.24 where a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.</p>
<p><b>Proposal for ED:</b></p>	<p>As the issue affects requirements of IPSAS 4 not only at first-time adoption, staff is of the view that no transitional provision related to translation to the presentation currency should be provided in the first-time adoption ED.</p>



<b>Basket:</b>	No transitional provision at first-time adoption should be provided. Staff proposes to consider the issue within an improvements project.
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## Assessment of Transitional Provisions Related to IPSAS 5, *Borrowing Costs*

<b>Accounting issue:</b>	<b>Retrospective capitalization or expensing of borrowing costs (cf. IPSAS 5.41)</b>	
<b>Outline of issue:</b>	<p>Under its previous basis of accounting an entity may have expensed its borrowing costs immediately or the entity may have capitalized its borrowing costs in accordance with the previous basis of accounting. The adoption of accrual basis IPSASs implies a change in accounting policy and according to IPSAS 3 an entity would be required to:</p> <ul style="list-style-type: none"> <li>(a) Retrospectively capitalize borrowing costs for all qualifying assets in accordance with IPSAS 5 if the entity elects to apply the allowed alternative treatment (cf. IPSAS 5.17 ff.), or</li> <li>(b) Retrospectively expense capitalized borrowing costs if the entity has capitalized borrowing costs under its previous basis of accounting and elects to apply the benchmark treatment (cf. IPSAS 5.14 ff.).</li> </ul> <p>Transitional provisions for IPSAS 5 need to consider these scenarios.</p>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
<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><i>Please note:</i></p> <ul style="list-style-type: none"> <li>IPSAS 5.41 is based on the December 1993 version of IAS 23.30.</li> <li>As IPSAS 5.41 merely provides an encouragement to adjust its financial statements in accordance with IPSAS 3, entities which have not recognized borrowing costs under their previous basis of accounting (e.g. because they have applied</li> </ul>		<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> <p><i>Please note:</i></p> <ul style="list-style-type: none"> <li>Relief provided by IFRS 1 for IAS 23 refers to</li> </ul>

<p>the cash basis previously) do not have to restate existing qualifying assets at the date of transition to IPSASs on a retrospective basis.</p>	<p>the 2007 version of IAS 23.</p>
<p><b>Aspect of the minimum information:</b></p>	<p>Appropriate measurement of elements.</p>
<p><b>Assessment based on the qualitative characteristics of, and constraints on, information:</b></p>	<p>Staff proposes that entities should not be required to apply IPSAS 5 retrospectively. This means that entities should neither be required to retrospectively capitalize borrowing costs for qualifying assets in accordance with IPSAS 5 if the entity elects to apply the allowed alternative treatment at first-time adoption, nor be required to retrospectively expense capitalized borrowing costs if the entity elects to apply the benchmark treatment.</p> <p>Depending on an entity's operations, not applying IPSAS 5 retrospectively can be a matter of <b>relevance</b> as it is capable of making a difference in achieving the objectives of financial reporting. Not applying IPSAS 5 retrospectively at first-time adoption of accrual basis IPSASs might not result in a <b>faithful representation</b> of the financial position/performance of an entity. Faithful representation might not be achieved because carrying amounts for the same qualifying assets might differ, depending on whether they were acquired before or after the date of transition to IPSASs. Retrospective application of IPSAS 5 also influences subsequent measurement of such assets. Depending on an entity's operations, this issue can be of <b>relevance</b>. The <b>cost</b> for the provision of information required by retrospective application of IPSAS 5 (e.g. the retrospective identification of qualifying assets or the retrospective calculation of the eligible borrowing costs) is likely to be considerably high.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that the high costs for applying IPSAS 5 retrospectively (especially for entities which have applied the cash basis previously) outweigh faithful representation and relevance.</p>
<p><b>Fair presentation consideration:</b></p>	<p>Not applying IPSAS 5 retrospectively might affect fair presentation of an entity's financial position/financial performance at first-time adoption as the carrying amount of pre-existing qualifying assets might not be reflected in accordance with IPSAS 5 at the date of transition as well as in subsequent periods. As the capitalization or expensing of borrowing costs is a matter of classification, entities need to provide notes disclosures about the accounting policies that explain the accounting for borrowing costs before and after the date of transition to IPSASs. This will help users to get a better understanding and contribute to fair presentation.</p>

<b>Practical complexity/difficulty:</b>	Irrespective of the previously applied basis of accounting, entities might need to undertake considerable efforts to retrospectively capitalize borrowing costs. For example, the retrospective identification of qualifying assets according to IPSAS 5 or the retrospective calculation of the eligible borrowing costs can be onerous. Also retrospective expensing of borrowing costs which were capitalized under the previous basis of accounting require certain efforts (e.g. restatement of qualifying assets).
<b>Proposal for ED:</b>	<ul style="list-style-type: none"> <li>Based on the practical complexity/difficulty-criterion and the existing transitional provision in IPSAS 5 staff proposes to keep the existing transitional provision in IPSAS 5, i.e. entities should merely be encouraged to apply IPSAS 5 retrospectively. Therefore, entities are neither required to retrospectively capitalize borrowing costs in accordance with IPSAS 5 if the entity elects to apply the allowed alternative treatment at first-time adoption, nor required to retrospectively expense capitalized borrowing costs if the entity elects to apply the benchmark treatment.</li> <li>Staff proposes that where an entity adopts, or changes its accounting policy, to the allowed alternative treatment for borrowing costs, the entity should be allowed to apply the requirements of IPSAS 5 prospectively to qualifying assets. Therefore, entities would be allowed to capitalize borrowing costs for qualifying assets existing at the date of transition to IPSASs on a prospective basis. Staff proposes to incorporate such a paragraph in the first-time adoption ED.</li> </ul>
<b>Basket:</b>	Basket 1, under the precondition that entities provide notes disclosures about the accounting policies that explain the accounting for borrowing costs before and after the date of transition to IPSASs.

At the **September 2012 meeting** one member added with respect to IPSAS 5 that also relief could be considered for the case where an entity has capitalized borrowing costs under its previous basis of accounting and decides to cease capitalization at first-time adoption. The question is whether entities are required to retrospectively expense the accrued borrowing costs and to restate the cost of the qualifying asset. Staff will work in conjunction with the TBG on an appropriate transitional provision for this issue and will present this at the December 2012 IPSASB meeting.

<b>Accounting issue:</b>	<b>Partly retrospective capitalization of borrowing costs where entities follow the allowed alternative treatment</b>	
<b>Outline of issue:</b>	Entities following the allowed alternative treatment according to IPSASs at first-time adoption have, as an alternative to not (fully) account for borrowing costs on a retrospective basis, the possibility to capitalize only those borrowing costs incurred after the effective date of IPSAS 5 that meet the criteria for capitalization (see IPSAS 5.41). As the effective date of IPSAS 5 is July 1, 2001, entities that elect to follow the allowed alternative treatment at first-time adoption are required to capitalize all borrowing costs incurred after July 1, 2001 retrospectively. According to IPSAS 5.18 these are all borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
<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>. <b>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.</b></p> <p><i>Please note:</i></p> <ul style="list-style-type: none"> <li>IPSAS 5.41 is based on the December 1993 version of IAS 23.30.</li> <li>As the effective date of IPSAS 5 is July 1, 2001, entities that elect to follow the allowed alternative treatment are required to capitalize borrowing costs incurred after July 1, 2001 (retrospectively).</li> </ul>		<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>
<b>Aspect of the minimum information:</b>	Appropriate measurement of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on,</b>	Staff proposes to provide an alternative transitional provision for entities following the allowed alternative treatment at first-time adoption. Those entities should be allowed to capitalize only those borrowing costs incurred after a specific date. Other than provided by IPSAS 5.41 (where	

<p><b>information:</b></p>	<p>all borrowing costs incurred after July 1, 2001 shall be capitalized retrospectively) staff proposes that an entity is allowed to designate any date before the date of transition to IPSASs and apply IPSAS 5 to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date. This would correspond to IAS 23.28. As IAS 23.28 captures all instances where entities previously have either expensed or capitalized borrowing costs, staff assumes that such a transitional provision also fits for first-time adoption of IPSASs where entities elect to follow the allowed alternative treatment. References of IAS 23.28 to the effective date need to be interpreted as the date of transition to IFRSs.</p> <p>When an entity designates a date which is close to the date of transition to IPSASs it follows that this might not result in a <b>faithful representation</b> of the financial position/performance of the entity as certain borrowing costs for qualifying assets might not have been capitalized. The more the entity chooses a date which is more remote to the date of transition to IPSASs the higher the probability that borrowing costs for all qualifying assets have been captured. Depending on an entity's operations, the designation of a certain date can be of <b>relevance</b>. Staff has considered the <b>cost</b> for the retrospective application of IPSAS 5 as high.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristic of faithful representation and cost</b>. An alternative to designate any date before the date of transition to IPSAS and apply IPSAS 5 to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date addresses that trade-off. By choosing an appropriate date some entities might even be able to fulfill the qualitative characteristic of faithful representation at first-time adoption as the entity was able to capitalize all eligible borrowing costs.</p>
<p><b>Fair presentation consideration:</b></p>	<p>Depending on the date an entity designates and therefore to the extent an entity is able to capitalize all eligible borrowing costs, an entity might be able to achieve fair presentation of its first IPSAS financial statements. As the capitalization or expensing of borrowing costs is a matter of classification, entities need to provide notes disclosures about the accounting policies that explain the accounting for borrowing costs before and after the designated date. This will help users to get a better understanding and contribute to fair presentation.</p>

<b>Practical complexity/difficulty:</b>	Just partly retrospective capitalization of borrowing costs where entities follow the allowed alternative treatment would be less cumbersome for entities than fully retrospective capitalization of borrowing costs. Therefore, an alternative to designate a certain date before the date of transition to IPSASs and capitalize borrowing costs relating to all qualifying assets starting at that date gives entities more flexibility to consider their individual situation and could possibly fulfill the requirements for fair presentation.
<b>Proposal for ED:</b>	Staff proposes to provide an alternative transitional provision for entities following the benchmark treatment at first-time adoption. Those entities should be allowed to capitalize only those borrowing costs incurred after a specific date. Staff proposes that an entity is allowed to designate any date before the date of transition to IPSASs and apply IPSAS 5 to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date.
<b>Basket:</b>	Basket 1, under the precondition that entities provide notes disclosures about the accounting policies that explain the accounting for borrowing costs before and after the designated date.

<b>Accounting issue:</b>	<b>Partly retrospective expensing of capitalized borrowing costs where entities follow the benchmark treatment</b>	
<b>Outline of issue:</b>	<p>Entities which have capitalized borrowing costs in accordance with their previous basis of accounting and elect to follow the benchmark treatment at first-time adoption have either the possibility to:</p> <ul style="list-style-type: none"> <li>(a) Apply IPSAS 5 retrospectively, or</li> <li>(b) Use the transitional provision of IPSAS 5.41 and apply IPSAS 5 prospectively.</li> </ul> <p>IPSAS 5.41 does not provide an alternative approach for entities which follow the benchmark treatment. Therefore, entities currently have no possibility to partly expense borrowing costs capitalized before the date of transition to IPSASs and to restate qualifying assets appropriately.</p>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
<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><i>Please note:</i></p> <ul style="list-style-type: none"> <li>• IPSAS 5.41 does not provide a transitional provision specifically for entities which follow the benchmark treatment.</li> </ul>		<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>
<b>Aspect of the minimum information:</b>	Appropriate measurement of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	Staff proposes to provide an alternative transitional provision for entities following the benchmark treatment at first-time adoption. Those entities should be allowed to expense those borrowing costs capitalized under the previous basis of accounting and incurred after a specific date. Staff proposes that an entity is allowed to designate any date before the date of transition to IPSASs and expense borrowing costs relating to all	



	<p>qualifying assets for which the commencement date for capitalization under the previous basis of accounting is on or after that date.</p> <p>When an entity designates a date which is close to the date of transition to IPSASs it follows that this might not result in a <b>faithful representation</b> of the financial position/performance of the entity as the carrying amount of qualifying assets might include borrowing costs capitalized before the designated date. The more the entity chooses a designated date which is more remote to the date of transition to IPSASs the higher the probability that the carrying amount of qualifying assets might not include borrowing costs capitalized before the designated date. Depending on an entity's operations, the designation of a certain date can be of <b>relevance</b>. Staff considers the <b>cost</b> for retrospectively expensing of capitalized borrowing costs as high (e.g. the identification of qualifying assets, the restatement of those assets).</p> <p>Staff has identified a <b>trade-off between the qualitative characteristic of faithful representation and cost</b>. An alternative to designate any date before the date of transition to IPSAS and expense borrowing costs relating to all qualifying assets for which the commencement date for capitalization according to the previous basis of accounting is on or after that date addresses that trade-off. By choosing an appropriate date some entities might even be able to fulfill the qualitative characteristic of faithful representation at first-time adoption as the entity will be able to expense all eligible borrowing costs and restate the qualifying assets appropriately.</p>
<b>Fair presentation consideration:</b>	<p>Depending on the date an entity designates and therefore to the extent an entity is able to expense all capitalized borrowing costs, an entity might be able to achieve fair presentation of its first IPSAS financial statements. As the capitalization or expensing of borrowing costs is a matter of classification, entities need to provide notes disclosures about the accounting policies that explain the accounting for borrowing costs before and after the designated date. This will help users to get a better understanding and contribute to fair presentation.</p>
<b>Practical complexity/difficulty:</b>	<p>Just partly retrospective expensing of capitalized borrowing costs where entities follow the benchmark treatment would be less cumbersome for entities than fully retrospective expensing of borrowing costs. Therefore, an alternative to designate a certain date before the date of transition to IPSASs and expense capitalized borrowing costs relating to all qualifying assets starting at that date gives entities more flexibility to consider their individual situation and could possibly fulfill the requirements for fair presentation.</p>

<b>Proposal for ED:</b>	Staff proposes to provide an alternative transitional provision for entities which have capitalized borrowing costs in accordance with their previous basis of accounting and which follow the benchmark treatment at first-time adoption. Those entities should be allowed to expense those borrowing costs incurred after a specific date. Staff proposes that an entity is allowed to designate any date before the date of transition to IPSASs and expense borrowing costs relating to all qualifying assets for which the commencement date for capitalization under the previous basis of accounting is on or after that date. The respective assets need to be restated accordingly.
<b>Basket:</b>	Basket 1, under the precondition that entities provide notes disclosures about the accounting policies that explain the accounting for borrowing costs before and after the designated date.

**Assessment of Transitional Provisions Related to IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures***

<b>Accounting issue:</b>	<b>Requirement to present consolidated financial statements at first-time adoption of accrual basis IPSASs</b>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
According to IPSAS 6.15 a controlling entity is required to present consolidated financial statements at first-time adoption of accrual basis IPSASs (except for controlling entities as described in IPSAS 6.16).  IPSAS 6 does not provide relief with respect to the presentation of consolidated financial statements.		No transitional provisions in IFRS 1.
<b>Aspect of the minimum information:</b>	Belongs to the minimum information that needs to be presented for the group reporting entity.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information in General Purpose Financial Reports:</b>	The presentation of consolidated financial statements is <b>relevant</b> as it is capable of making a difference in achieving the objectives of financial reporting. The entity presents GPFRs as if it is a single entity. To achieve this, certain consolidation procedures are performed, including the elimination of balances, transactions, revenues, and expenses between entities within an economic entity. Based on the concept of a public sector reporting entity, consolidated financial statements according to IPSAS 6 are a <b>faithful representation</b> of the economic and other phenomena that it purports to depict. Thus, not presenting consolidated financial statements at first-time adoption of accrual basis IPSASs would not be a faithful representation of an entity's financial statements. The concept of a reporting entity requires that such an entity that comprises two or more separate entities that present GPFRs needs to present its financial statements as if they are a single entity. The presentation of consolidated financial information is likely to be <b>material</b> as its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on that basis. The <b>costs</b> of preparing consolidated financial statements could be considerable, depending on the type of public sector entity. The higher the number of controlled entities, the higher the costs of preparing consolidated financial statements might be.	

	Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b> . The crucial question is whether the costs of preparing consolidated financial statements outweigh relevance and faithful representation.
<b>Fair presentation consideration:</b>	Not presenting consolidated financial statements will not lead to a fair presentation of an entity's financial statements at first-time adoption as conceptually, a reporting entity that comprises two or more separate entities that present GPFRs needs to present its financial statements as if they were a single entity.
<b>Practical complexity/difficulty:</b>	Especially entities applying the cash basis under its previous basis of accounting might face considerable challenges in presenting consolidated financial statements at first-time adoption. Also entities which previously have applied the accrual basis of accounting and presenting consolidated financial statements for the first time might have difficulties in consolidating its controlled entities. The size of an entity might also have an impact on the number of entities which needs to be consolidated and therefore increases the practical difficulties involved with consolidations.
<b>Proposal for ED:</b>	A transitional provision that allows an entity to not present consolidated financial statements according to IPSAS 6 at first-time adoption of accrual basis IPSASs would contradict the concept of a reporting entity and would not lead to fair presentation. Therefore, staff does not propose any transitional provision relating to the presentation of consolidated financial statements at first-time adoption of accrual basis IPSASs.
<b>Basket:</b>	No transitional provision should be provided.

At its **September 2012 meeting** the IPSASB generally supported the view that a transitional provision that allows an entity to not present consolidated financial statements at first-time adoption should not be provided to entities.

<b>Accounting issue:</b>	<b>Requirement to fully eliminate balances, transactions, revenues, and expenses between entities within the economic entity according to IPSAS 6.45 and IPSAS 8.35 where the proportionate consolidation of IPSAS 8 is adopted</b>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
<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> <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.
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
<b>Aspect of the minimum information:</b>	Recognition of elements in an entity's first IPSAS financial statements.	

<p><b>Assessment based on the qualitative characteristics of, and constraints on, information in General Purpose Financial Reports:</b></p>	<p>The full elimination of balances, transactions, revenues, and expenses between entities within the economic entity is <b>relevant</b> as it is capable of making a difference in achieving the objectives of financial reporting. If balances, transactions, revenues, and expenses between entities within the economic entity are not fully eliminated the consolidated financial statement would not <b>faithfully represent</b> the economic and other phenomena that it purports to depict. The concept of the reporting entity implies that the entity only reflects those transactions with parties outside the economic entity. The full elimination of balances, transactions, revenues, and expenses between entities within the economic entity is likely to be <b>material</b> as its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on that basis. The <b>costs</b> of fully eliminating balances, transactions, revenues, and expenses could be considerably high, depending on the number of controlled entities and the number of transactions between the entities.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. The crucial question is whether the costs of fully eliminating balances, transactions, revenues, and expenses between entities within the economic entity outweigh relevance and faithful representation.</p>
<p><b>Fair presentation consideration:</b></p>	<p>Not fully eliminating balances, transactions, revenues, and expenses between entities within the economic entity will not lead to a fair presentation of an entity's financial statements at first time adoption as certain items of revenues, expenses, assets and liabilities might be overstated.</p>
<p><b>Practical complexity/difficulty:</b></p>	<p>Especially entities applying the cash basis under its previous basis of accounting might face considerable challenges in consolidating its controlled or jointly controlled entities at first-time adoption. Also entities which previously have applied the accrual basis of accounting and presenting consolidated financial statements for the first time might have difficulties in consolidating its controlled or jointly controlled entities. The size of an entity might also have an impact on the number of entities which needs to be consolidated and therefore increases the practical difficulties involved with consolidations.</p>
<p><b>Proposal for ED:</b></p>	<p>Based on the practical complexity/difficulty-criterion staff proposes to keep the existing transitional provisions in IPSAS 6 and 8. Within a grace period of 3 years entities should not be required to fully eliminate balances, transactions, revenues, and expenses between entities within the economic entity according to IPSAS 6.45 and IPSAS 8.35 where the proportionate consolidation of IPSAS 8 is adopted.</p>

<b>Basket:</b>	Staff considers this as a basket 2 issue, as entities are not able to fairly present an entity's financial statements at first time adoption (including the opening statement of financial position) as certain items of revenues, expenses, assets and liabilities might be overstated.
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At its **September 2012 meeting** the IPSASB generally supported the view that relief regarding the full elimination of balances, transactions, revenues, and expenses between entities within the economic entity according to IPSAS 6.45 and IPSAS 8.35 (where the proportionate consolidation of IPSAS 8 is adopted) could still be provided at first-time adoption. Staff should consider whether such relief could be classified as a 2<sup>nd</sup> basket transitional provision.

<b>Accounting issue:</b>	<b>Determination of the initial cost of</b> <b>(i) a controlled entity in the separate opening IPSAS statement of financial position (cf. IPSAS 6.58);</b> <b>(ii) an investment in an associate in the separate opening IPSAS statement of financial position (cf. IPSAS 7.41)</b>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
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.</p> <p>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>
<b>Aspect of minimum information:</b>	Appropriate measurement of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information in General Purpose Financial Reports:</b>	<p>Staff proposes to use the relief as provided by IFRS 1.D15 in the ED.</p> <p>Each of the proposed alternative measurement bases to cost, i.e. fair value and previous GAAP carrying amount will likely result in <b>relevant</b> information and will likely achieve <b>faithful representation</b>. Allowing entities to use the deemed cost approach, might result in cost savings necessary for determination of cost in accordance with IPSAS 6. Fair value at the entity's date of transition to IPSASs or the previous GAAP carrying amount at that date (i.e. using deemed cost) could be appropriate alternatives where cost information is not available. Having the possibility to use the deemed cost approach entities can exercise their own discretion about applying fair value or the previous GAAP</p>	



	<p>carrying amount on initial adoption.</p> <p>Costs, fair value as well as previous carrying amount all fulfill the qualitative characteristic of <b>understandability</b>. The <b>verifiability</b> of a cost-based measurement basis or using the previous carrying amount is likely higher than a fair value measurement basis (assuming that appropriate supporting information exists). The <b>costs</b> for preparers will depend on the availability of information. Using cost determined in accordance with IPSAS 7 as a measurement basis implies that an entity needs to screen its historic records with respect to the controlled entity or the associate (e.g. to identify former distributions or changes in the interest of the controlled entity or the associate). Therefore, a cost-based measurement basis might imply considerable cost to retrieve such information. Assuming that the previous carrying amount is appropriate, from a preparer's point of view, using that measurement basis might be the least expensive way of measuring controlled entities or associates in its separate financial statements. From a user's perspective, the benefits of using a cost-based or a previous GAAP measurement basis might be lower.</p>
<b>Practical complexity/difficulty:</b>	Referring to the cost consideration paragraph above entities might face challenges in determining cost.
<b>Fair presentation consideration:</b>	Using fair value as deemed cost as well as measuring controlled entities at cost determined in accordance with IAS 27 lead to fair presentation. Using the previous carrying amount will only lead to fair presentation when the resulting value is consistent with the requirements of the IPSASs.
<b>Proposal for ED:</b>	Staff proposes to use the relief as provided by IFRS 1.D15 in the ED and adapt for IPSASs.
<b>Basket:</b>	Basket 1.

In its **September 2012 meeting** the IPSASB generally supported the view that the relief as provided by IFRS 1.D15 and adapted for IPSASs should be provided at first-time adoption.

<b>Accounting issue:</b>	<b>Measurement and recognition of jointly controlled assets and liabilities at first-time adoption (cf. IPSAS 8.22 et seq.)</b>	
<b>Outline of issue:</b>	IPSAS 8 does not provide guidance on how to measure or recognize jointly controlled assets and liabilities. Therefore, it is also not clear how to recognize and measure jointly controlled assets and liabilities at first-time adoption and whether the transitional provisions for the respective jointly controlled assets and liabilities could be used. The accounting issue relates more to a clarification which is needed at first-time adoption than to specific relief.	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
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.”
<b>Aspect of the minimum information:</b>	Appropriate recognition and measurement of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information in General Purpose Financial Reports:</b>	Staff is of the view that here an in-depth evaluation of the issue is not necessary as the proposal relates more to a clarification than to a transitional provision.	
<b>Practical complexity/difficulty:</b>	A clarification whether entities will be allowed to use the transitional provisions for the respective jointly controlled assets or liabilities will reduce uncertainties about recognition and measurement of such assets or liabilities and therefore possible difficulties at first-time adoption.	

<b>Fair presentation consideration:</b>	A clarification on how to recognize and measure jointly controlled assets and liabilities at first-time adoption would contribute to the fair presentation of an entity's first IPSAS financial statements.
<b>Proposal for ED:</b>	Clarify that a joint venturer is allowed to make use of the transitional provisions of the IPSAS on first-time adoption of accrual basis IPSASs also for jointly controlled assets and liabilities.
<b>Basket:</b>	As the proposal is just a clarification, and therefore not a transitional provision, staff is of the view that a classification in baskets is not appropriate. The basket classification will depend on the respective transitional provision applied to a certain jointly controlled asset or liability.

**Assessment of Transitional Provisions Related to IPSAS 9, *Revenue from Exchange Transactions***

<b>Accounting issue:</b>	Staff has not identified accounting issues which require transitional provisions at first-time adoption of accrual basis IPSASs.
<b>Proposal for ED:</b>	Staff is of the view that no transitional provisions related to IPSAS 9, <i>Revenue from Exchange Transactions</i> should be provided in the First-time Adoption ED.

**Assessment of Transitional Provisions Related to IPSAS 10, *Financial Reporting in Hyperinflationary Economies***

<b>Accounting issue:</b>	Staff has not identified accounting issues which require transitional provisions at first-time adoption of accrual basis IPSASs.
<b>Proposal for ED:</b>	Staff is of the view that no transitional provisions related to IPSAS 10, <i>Financial Reporting in Hyperinflationary Economies</i> should be provided in the First-time Adoption ED.

**Assessment of Transitional Provisions Related to IPSAS 11, *Construction Contracts***

<b>Accounting issue:</b>	<b>Retrospective recognition of contract costs that relate to future activity on the contract (provided it is probable that they will be recovered) (cf. IPSAS 11.35)</b>	
<b>Outline of issue:</b>	Where a contractor has incurred contract costs (see IPSAS 11.23 for a definition) that relate to activity on the contract shall be recognized as an asset, provided it is probable that they will be recovered.	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions, which implies retrospective application according to IPSAS 3.		No transitional provisions, which implies retrospective application according to IAS 8.
<b>Aspect of the minimum information:</b>	Appropriate recognition of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>The recognition of contract costs that relate to future activity on the contract could be a matter of <b>relevance</b>, as it is capable of making a difference in achieving the objectives of financial reporting. Entities specializing in construction might have several construction contracts. In these cases, not recognizing contract costs that relate to future activity on the contract in the opening IPSAS statement of financial position might not fulfill the objective of accountability and decision-making. Not accounting for such contract costs retrospectively affects the <b>faithful representation</b> of an entity's financial position. Financial statements not showing this asset do not give a complete picture of the financial position of an entity. These assets will likely be a <b>material</b> item in the statement of financial position only for entities that undertake construction activities. On the one hand, one can assume that the <b>cost</b> of retrospectively accounting for such contract costs might be high. But on the other hand, an entity will keep track of these cost as it is either going to charge directly or to recover the costs from another party. In addition, there will also be <b>benefits</b> for the users of such financial statements (e.g. for a superordinate entity).</p> <p>In staff's view the QC of <b>faithful representation</b> outweighs all other qualitative characteristics/constraints. In addition, staff assumes that entities acting as a contractor (and thus being in the scope of IPSAS 11) are able to retrieve such information from their records and to determine contract costs according to IPSAS 11.23 retrospectively, as entities have</p>	

	kept track of these costs in the past.
<b>Practical complexity/difficulty:</b>	Certain entities might have difficulties to determine contract costs retrospectively. As entities are interested in recovering their cost, they will likely be able to provide the required contract costs (irrespective of the previous basis of accounting).
<b>Fair presentation consideration:</b>	Not recognizing contract costs that relate to future activity on the contract in an entity's first IPSAS financial statements affects fair presentation of an entity's financial position/financial performance.
<b>Proposal for ED:</b>	Do not provide transitional provisions on such contract cost, i.e. require retrospective application as it is assumed that entities will have kept track of these costs.
<b>Basket:</b>	No transitional provision should be provided.

At its **September 2012 meeting** the IPSASB generally supported the view that no transitional provision on such contract costs should be given. Entities within the scope of IPSAS 11 would be required to retrospectively account for these costs.

## Assessment of Transitional Provisions Related to IPSAS 12, *Inventories*

<b>Accounting issue:</b>	<b>Initial measurement of inventories (cf. IPSAS 12.15 et seq.)</b> See the outline of issue-section below to get a better understanding of the issue.	
<b>Outline of issue:</b>	<p><b>Background:</b> As there are no transitional provisions for IPSAS 12, currently, IPSAS 12.15-17 are likely the basis for measuring inventories at first-time adoption of accrual basis IPSASs. Inventories (acquired through an exchange transaction) shall be measured at the lower of cost and net realizable value at first-time adoption of accrual basis IPSASs (cf. IPSAS 12.15).</p> <p>According to IPSAS 12.16, cost of inventories acquired through a non-exchange transaction shall be measured at their <b>fair value as at the date of acquisition</b>. Staff assumes that for subsequent measurement, inventories acquired through a non-exchange transaction are measured at the lower of cost and net realizable value. According to IPSAS 12.17, inventories 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, shall be measured at the lower of cost and current replacement cost. Current replacement cost is defined in IPSAS 12.9 as an entry value.</p> <p>Because of retrospective application of IPSAS 12 an entity needs to differ between inventories as distinguished by paras 15, 16 and 17 of IPSAS 12 at first-time adoption and measure the inventories accordingly.</p> <p>As the IPSASB has agreed to allow for a deemed cost approach for investment property and property, plant and equipment, staff proposes to also allow for a deemed cost approach using fair value as measurement basis for all types of inventories except for inventories acquired in an exchange transaction and where cost information is available.</p>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions, which implies retrospective application of IPSAS 12 according to IPSAS 3.		No transitional provisions, which implies retrospective application according to IAS 8.
<b>Aspect of the minimum information:</b>	Appropriate measurement of elements.	



<p><b>Assessment based on the qualitative characteristics of, and constraints on, information:</b></p>	<p>Staff proposes to allow for a deemed cost approach in analogy to IFRS 1 at first-time adoption of accrual basis IPSASs with the exception of inventories acquired in an exchange transaction and where cost information for such inventories is available. As the application of the deemed cost approach to inventories might result in the recognition of unrealized gains, entities should not be allowed to use the deemed cost approach for inventories acquired in an exchange transaction and where cost information for such inventories is available.</p> <p>Measurement of inventories at fair value is <b>relevant</b> as it is capable of making a difference in achieving the objectives of financial reporting. An accurate measurement contributes to provide information useful for accountability purposes, to the ability of an entity to fulfill its service delivery objectives, etc. In addition, it has confirmatory value as well as predictive value (e.g. for the determination of future depreciation)).</p> <p>Using fair value at first-time adoption to value inventories will likely result in <b>relevant</b> information and will likely achieve <b>faithful representation</b>. Allowing entities to use the deemed cost approach, results in cost savings necessary for classifying inventories according to IPSAS 12.15 to 12.17 or measuring those inventories accordingly (e.g. for entities previously applying the cash basis of accounting). Using the deemed cost approach could be an appropriate alternative where cost information is not available. Having the possibility to use the deemed cost approach, entities can exercise their own discretion about applying fair value on initial adoption.</p> <p>Fair value fulfils the qualitative characteristic of <b>understandability</b>. Staff is not sure whether a fair value measurement of inventories implies less (or more) <b>cost</b> for preparers than a measurement based on the lower of cost and net realizable value or on the lower of cost and current replacement cost. The possibility of a first-time adopter to use a previous GAAP revaluation of an item of inventory at, or before, the date of transition to IPSASs as deemed cost at the date of the revaluation (under certain conditions) contributes to save costs for preparers at first-time adoption.</p>
<p><b>Fair presentation consideration:</b></p>	<p>In staff's view, using fair value as deemed cost as measurement basis will allow for <b>fair presentation</b> of inventories in an entity's first IPSAS financial statements.</p>

<b>Practical complexity/difficulty:</b>	<p>Entities might have difficulties in determining cost of inventories at the date of transition to IPSASs. For example, cost might not be available for land acquired some time ago but held for sale or distribution in the ordinary course of business. Also determination of net realizable value, which is an exit value, might cause problems for preparers in a public sector context (e.g. for special medicine held for emergency purposes).</p> <p>Depending on the amount of an entity's inventories, the classification of inventories required by paras 15, 16 and 17 of IPSAS 12 and the resulting measurement requirements impose considerable efforts to an entity at first-time adoption.</p>
<b>Proposal for ED:</b>	<p>Allow for deemed cost approach based on fair value (see IPSAS 16 and 17) for all three types of inventories in the ED on first-time adoption except for inventories acquired in an exchange transaction and where cost information for such inventories is available.</p>
<b>Basket:</b>	Basket 1.

At the **September 2012** IPSASB's meeting members expressed the view that where entities have acquired inventories in an exchange transaction and cost information is not available they should be allowed to use the deemed cost approach. Entities should be allowed to use a deemed cost approach for (a) inventories acquired through a non-exchange transaction, and (b) inventories held for (i) distribution at no charge or for a nominal charge, or (ii) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

## Assessment of Transitional Provisions Related to IPSAS 13, Leases

Accounting issue:	Retrospective application of IPSAS 13	
<b>Outline of issue:</b>	<p>Please note that:</p> <ul style="list-style-type: none"> <li>(a) A lease agreement needs to be classified according to IPSAS 13.12 et seq. In order to be able to account for leases according to IPSAS 13 at first-time adoption of accrual basis IPSASs an entity might need to reclassify its existing lease agreements;</li> <li>(b) According to IPSAS 13.28, a lessee shall recognize assets acquired under finance leases as assets, and the associated lease obligations as liabilities in its statement of financial position <u>at the commencement of the lease term</u>. The assets and liabilities shall be recognized at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, <u>each determined at the inception of the lease</u>. Subsequent measurement of finance leases is based on IPSAS 13.34 et seq. As IPSAS 3 requires retrospective application of accounting policies (unless this is impracticable) an entity would be required to restate its existing finance leases if it has used a different accounting policy than IPSAS 13 requires.</li> </ul>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial position, statement of financial performance, statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
Transitional Provisions in IPSAS:		Transitional Provisions in IFRS 1:
<p>IPSAS 13.81: Subject to paragraph 83, retrospective application of this Standard by entities that have already adopted the accrual basis of accounting and that intend to comply with IPSASs as they are issued is encouraged but not required.</p> <p><i>Staff would like to note:</i></p> <ul style="list-style-type: none"> <li>As IPSAS 13.81 refers solely to entities that have already adopted the accrual basis of accounting and that intend to comply with IPSASs as they are issued, it rests unclear whether entities applying the cash basis under their previous basis of accounting are required to apply IPSAS 13 retrospectively.</li> </ul>		No transitional provisions.

<b>Aspect of the minimum information:</b>	Appropriate recognition, measurement and presentation of elements in an entity's first IPSAS financial statements.
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes to keep the existing transitional provision of IPSAS 13.81 (i.e. entities should not be required to apply IPSAS 13 retrospectively), irrespective of an entity's previous basis of accounting.</p> <p>Depending on the entity (e.g. depending on the number of lease agreements an entity has at first-time adoption), retrospective application of IPSAS 13 can be a matter of <b>relevance</b> as it is capable of making a difference in achieving the objectives of financial reporting. Not applying IPSAS 13 retrospectively at first-time adoption might not result in a <b>faithful representation</b> of the financial position/performance of an entity as existing lease agreements might not have been remeasured in accordance with IPSAS 13. The <b>cost</b> of retrospective application of IPSAS 13 at first-time adoption of accrual basis is likely to be high, e.g. because of the requirement to reclassify existing lease agreements and to remeasure assets acquired under finance leases and the associated lease obligations.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that many entities are likely affected by a retrospective application of IPSAS 13 (especially entities with a high number of lease agreements). Cost might outweigh the qualitative characteristics.</p>
<b>Practical complexity/difficulty:</b>	Entities with many lease agreements at first-time adoption and with different accounting policies than IPSASs might require considerable efforts to restate their existing lease agreements at first-time adoption. Entities previously applying the cash basis of accounting might also face considerable challenges to restate their lease agreements according to IPSAS 13 on a retrospective basis at first-time adoption and to compile the required information for retrospective classification, recognition and measurement.
<b>Fair presentation consideration:</b>	Not applying IPSAS 13 retrospectively, will not lead to fair presentation of an entity's financial position/performance at first-time adoption. As existing lease agreements will not get restated in accordance with IPSAS 13, fair presentation of an entity's first financial statements according to IPSASs will not be achieved.
<b>Proposal for ED:</b>	Based on staff's consideration that cost will outweigh the qualitative characteristics and on the practical complexity/difficulty-criterion staff is of the view that entities should not be required to apply IPSAS 13 retrospectively. Staff proposes to keep the existing transitional provision in IPSAS 13.81 regarding retrospective application of IPSAS 13. As IPSAS 13.81 refers solely to entities that have already adopted the accrual basis of accounting staff proposes that also entities which have applied the cash basis under their previous basis of accounting should not be required to apply IPSAS 13 retrospectively.

<b>Basket:</b>	Basket 2, as not applying IPSAS 13 retrospectively, will not lead to fair presentation of an entity's financial position/performance at first-time adoption.
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<b>Accounting issue:</b>	<b>Restatement of finance leases by a lessee</b>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial position, statement of financial performance, statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget) and notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
IPSAS 13.81: If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor, and shall be accounted for thereafter in accordance with the provisions of this Standard.		No transitional provisions.
<b>Aspect of the minimum information:</b>	Appropriate measurement of an element.	
<b>Evaluation based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes to keep the existing transitional provision of IPSAS 13.81, i.e. it should be assumed that the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor. Entities are therefore able to measure their finance leases and associated liabilities in the opening IPSAS financial statement based on their previous GAAP carrying amount.</p> <p>Depending on the entity (e.g. depending on the number of finance lease agreements an entity has at first-time adoption), restatement of finance leases can be a matter of <b>relevance</b> as it is capable of making a difference in achieving the objectives of financial reporting. Not restating finance leases based on the principle of retrospective application might not result in a <b>faithful representation</b> of the financial position/performance in an entity's first IPSAS financial statements. As assets acquired under finance leases and associated liabilities will be valued at their previous GAAP carrying amount in the opening IPSAS statement of financial position, this will result in a not faithful representation of an entity's opening statement of financial position according to IPSASs. Users might not <b>understand</b> this measurement approach as the measurement approach of pre-existing finance leases differ from the measurement approach for new finance lease agreements contracted after the date of transition. Also <b>verifiability</b> might be impaired, as the same assets acquired under finance leases before the date of transition might have a different initial measurement value and therefore a different subsequent measurement value than assets under finance lease agreements made after the date of transition to IPSASs. The <b>cost</b> for the provision of restated information for existing finance lease agreements is likely to be high at first-time adoption.</p>	

	Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b> . Staff is of the view that the high costs for restating finance leases retrospectively outweigh relevance, faithful representation, understandability and verifiability.
<b>Practical complexity/difficulty:</b>	Entities with many pre-existing finance lease agreements at first-time adoption and with different accounting policies than IPSASs might require considerable efforts to restate their pre-existing finance lease agreements at the date of transition to IPSASs. Irrespective of the previous basis of accounting, many public sector entities need to undertake considerable efforts to retrieve the required information for measuring finance lease agreements according to IPSAS 13.28 on a retrospective basis.
<b>Fair presentation consideration:</b>	Allowing an entity to not restate finance leases retrospectively will not lead to fair presentation of an entity's financial position/performance at first-time adoption. The initial measurement value of existing finance lease agreements does not correspond to IPSAS 13.28. As a consequence, also subsequent measurement of finance lease agreements existing at the date of transition is not in accordance with IPSASs.
<b>Proposal for ED:</b>	<ul style="list-style-type: none"> <li>Based on staff's consideration that cost will outweigh the qualitative characteristics and the practical complexity/difficulty criterion staff proposes to keep the existing transitional provision in IPSAS 13.81 regarding measurement of finance leases.</li> <li>For entities applying the cash basis under their previous basis accounting staff suggests to provide guidance on how to measure assets acquired under finance leases and associated liabilities for existing finance leases at the date of transition to IPSASs in the Application Guidance of the ED.</li> </ul>
<b>Basket:</b>	Basket 2, as allowing an entity to measure their finance leases and associated liabilities in the opening IPSAS financial statement based on their previous GAAP carrying amount will not lead to fair presentation of an entity's financial position/performance at first-time adoption.

**Assessment of Transitional Provisions Related to IPSAS 14, *Events after the Reporting Date***

<b>Accounting issue:</b>	Staff has not identified accounting issues which require transitional provisions at first-time adoption of accrual basis IPSASs.
<b>Proposal for ED:</b>	Staff proposes to not provide transitional provisions related to IPSAS 14, <i>Events after the Reporting Date</i> .

**Assessment of Transitional Provisions Related to IPSAS 15, *Financial Instruments: Disclosure and Presentation***

<b>Accounting issue:</b>	As IPSAS 15 will be superseded by IPSAS 28-30 beginning of January 1, 2013 and an IPSAS on first-time adoption of accrual basis IPSASs will likely be effective later than January 1, 2013, there is no need to provide transitional provisions for IPSAS 15.
<b>Proposal for ED:</b>	Staff proposes to not provide transitional provisions related to IPSAS 15, <i>Financial Instruments: Disclosure and Presentation</i> in the first-time adoption ED.



# **Assessment of Transitional Provisions Related to IPSAS 16, *Investment Property***

<b>Accounting issue:</b>	<b>Recognition of investment property at first-time adoption of accrual basis IPSASs</b>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions.		No transitional provisions.
<b>Aspect of the minimum information:</b>	Appropriate recognition of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Based on IPSASB's recommendation at the September 2012 meeting staff proposes (in analogy to IPSAS 17) to introduce a transitional provision for the recognition of investment property at first-time adoption. In alignment with IPSAS 17 entities should not be required to recognize investment property beginning on a date within five years following the date of transition to IPSASs.</p> <p>The recognition of investment property at first-time adoption of IPSASs is a matter of <b>relevance</b>, as it is capable of making a difference in achieving the objectives of financial reporting. With a grace period of 5 years to recognize investment property the qualitative characteristic of <b>faithful representation</b> is not fulfilled. Financial statements not showing all investment property does not give a complete picture of the financial position of an entity. Also the qualitative characteristic of <b>comparability</b> is not going to be achieved, as users will not be able to compare the financial statements where investment property has not been recognized and where it has been recognized. In addition, depending on the entity, investment property could be a <b>material</b> item in the statement of financial position. The <b>cost</b> for providing information required for the recognition of investment property is also likely to be high at first-time adoption.</p> <p>In staff's view the QC of <b>faithful representation</b> outweighs all other qualitative characteristics/constraints.</p>	
<b>Fair presentation consideration:</b>	Not recognizing investment property in an entity's first IPSAS financial statements affects fair presentation of an entity's financial position. Where an item of investment property fulfills the definition of an asset according to IPSASs and meets the recognition criteria, it needs to be recognized in an entity's first IPSAS financial statements.	

<b>Practical complexity/difficulty:</b>	When entities implement accrual accounting in accordance with IPSASs for the first time, they often experience difficulties in compiling comprehensive information on the existence and valuation of assets. Especially entities applying previously the cash basis of accounting need to undertake considerable efforts to recognize and measure all their investment property (e.g. the implementation of an asset register, classifying the assets according to IPSAS 16 and distinguishing it from property, plant, and equipment according to IPSAS 17, etc.) (see paras 6.142 ff. of Study 14). On the one hand side, based on the volume of investment property, efforts for the recognition of investment property might be lower than for the recognition of property, plant, and equipment at first-time adoption. On the other hand side, there are strong linkages in the distinction between investment property and property, plant, and equipment.
<b>Proposal for ED:</b>	In alignment with IPSAS 17 and based on the practical complexity/difficulty criterion entities should not be required to recognize investment property beginning on a date within five years following the date of transition to IPSASs. Because of the linkages between the distinction of investment property and property, plant, and equipment staff is of the view that the length of the grace period for investment property and property, plant, and equipment should be the same.
<b>Basket:</b>	Basket 2, as not recognizing investment property in an entity's first IPSAS financial statements affects fair presentation of an entity's financial position.

At the **September 2012** meeting the IPSASB suggested in analogy to the discussion on recognition of property, plant, and equipment that staff should consider a grace period for the recognition of investment property on the basis that such relief is going to be classified as a basket 2 transitional provision.

<b>Accounting issue:</b>	<b>Initial measurement of investment property</b>
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures
<b>Transitional Provisions in IPSAS:</b>	<b>Transitional Provisions in IFRS 1:</b>
<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"> <li>(a) fair value; or</li> <li>(b) cost or depreciated cost in accordance with IFRSs, adjusted to reflect, for example, changes in a general or specific price index.</li> </ul>
<b>Aspect of the minimum information:</b>	Measurement of elements
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes to allow for a deemed cost approach in analogy to IFRS 1 at first-time adoption of accrual basis IPSASs if the entity elects to use the cost model in IPSAS 16.</p> <p>An accurate measurement of investment property is <b>relevant</b> as it is capable of making a difference in achieving the objectives of financial reporting. An accurate measurement contributes to provide information useful for accountability purposes, to the ability of an entity to fulfill its service delivery objectives, etc. In addition, it has confirmatory value as well as predictive value (e.g. for the determination of future depreciation)).</p> <p>Using fair value at first-time adoption to value investment property will likely result in <b>relevant</b> information and will likely achieve <b>faithful representation</b>. Allowing entities to use the deemed cost approach, might result in cost savings necessary for retrospectively applying IPSAS 16 (e.g. for entities previously applying the cash basis of accounting).</p>

	<p>Using fair value at the entity's date of transition to IPSASs as its deemed cost could be an appropriate alternative where cost information is not available. Having the possibility to use the deemed cost approach entities can exercise their own discretion about applying fair value on initial adoption.</p> <p>Fair value fulfils the qualitative characteristic of <b>understandability</b>. In case that an entity has applied the accrual basis of accounting and used a cost-based measurement approach, the <b>cost</b> for preparers of fair value measurement tend to be higher than measurement based on cost. The possibility of a first-time adopter to use a previous GAAP revaluation of an item of investment property at, or before, the date of transition to IPSASs as deemed cost at the date of the revaluation under certain conditions contributes to save costs for preparers.</p> <p>Staff proposes to also allow entities to apply the deemed cost approach for investment property acquired at no cost, or for a nominal cost. Measuring such investment property using the deemed cost approach is more relevant and likely less costly than measuring it at fair value as <i>at the date of acquisition to IPSASs</i>. This measurement approach is able to faithfully represent an entity's financial position at the first-time adoption of accrual basis IPSAS.</p>
<b>Fair presentation consideration:</b>	The deemed cost approach allows for fair presentation of investment property in an entity's first IPSAS financial statements.
<b>Practical complexity/difficulty:</b>	When entities implement accrual accounting in accordance with IPSASs for the first time, they often experience difficulties in compiling the required information for the valuation of assets at first-time adoption (e.g. for investment property that was acquired several years ago, or investment property that was acquired in a non-exchange transaction). Especially entities applying previously the cash basis of accounting need to undertake considerable efforts to measure all their investment property.
<b>Proposal for ED:</b>	<ol style="list-style-type: none"> <li>1. Allow for deemed cost approach based on fair value for investment property as provided by IFRS 1.D5-D7 (see IPSAS 17) also in the ED on first-time adoption if the entity elects to use the cost model in IPSAS 16.</li> <li>2. Entities should also be allowed to measure investment property acquired at no cost, or for a nominal cost using the deemed cost approach at first-time adoption.</li> </ol>
<b>Basket:</b>	Basket 1, as the deemed cost approach allows for fair presentation of investment property in an entity's first IPSAS financial statements

At its **September 2012 meeting** the IPSASB generally supported the view that entities should be allowed to use the deemed cost approach based on fair value for investment property as provided by IFRS 1.D5-

D7 if the entity elects to use the cost model in IPSAS 16. The deemed cost approach should also be allowed for investment property acquired at no cost, or for a nominal cost.

**Assessment of Transitional Provisions Related to IPSAS 17, *Property, Plant and Equipment***

<b>Accounting issue:</b>	<b>Recognition of property, plant and equipment at first-time adoption of accrual basis IPSASs</b>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
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.
<b>Aspect of the minimum information:</b>	Appropriate recognition of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Based on IPSASB's recommendation at the September 2012 meeting staff proposes to keep the existing transitional provision of IPSAS 17. Entities should not be required to recognize property, plant, and equipment beginning on a date within five years following the date of transition to IPSASs.</p> <p>The recognition of property, plant and equipment at first-time adoption of IPSASs is a matter of <b>relevance</b>, as it is capable of making a difference in achieving the objectives of financial reporting. With a grace period of 5 years to recognize property, plant, and equipment the qualitative characteristic of <b>faithful representation</b> is not fulfilled. Financial statements not showing all property, plant, and equipment do not give a complete picture of the financial position of an entity. Also the qualitative characteristic of <b>comparability</b> is not going to be achieved, as users will not be able to compare the financial statements where property, plant and equipment has not been recognized and where it has been recognized. In addition, property, plant and equipment is likely to be a <b>material</b> item in the statement of financial position. Because of likely high amounts of items of property, plant and equipment by an entity the <b>cost</b> of providing that information is likely to be high, but also the <b>benefits</b> of these information seem to be high for preparers and users.</p> <p>In staff's view the QC of <b>faithful representation</b> outweighs all other qualitative characteristics/constraints.</p>	

<b>Fair presentation consideration:</b>	Not recognizing property, plant and equipment in an entity's first IPSAS financial statements affects fair presentation of an entity's financial position at first-time adoption. Where an item of property, plant and equipment fulfills the definition of an asset according to IPSASs and meets the recognition criteria, it needs to be recognized in an entity's financial statements.
<b>Practical complexity/difficulty:</b>	When entities implement accrual accounting in accordance with IPSASs for the first time, they often experience difficulties in compiling comprehensive information on the existence and valuation of assets (see IPSAS 17.101). Especially entities applying previously the cash basis of accounting need to undertake considerable efforts to recognize and measure all their property, plant, and equipment for the first time (e.g. the implementation of an asset register, classifying the assets according to IPSASs, etc.) (see paras 6.14 ff. of Study 14).
<b>Proposal for ED:</b>	Based on the practical complexity/difficulty criterion entities should not be required to recognize property, plant, and equipment beginning on a date within five years following the date of transition to IPSASs.
<b>Basket:</b>	Basket 2, as not recognizing property, plant and equipment in an entity's first IPSAS financial statements affects fair presentation of an entity's financial position at first-time adoption.

At its **September 2012 meeting** the IPSASB concluded that staff should consider a grace period for the recognition of property, plant, and equipment on the basis that such relief is going to be classified as a basket 2 transitional provision.

<b>Accounting issue:</b>	<b>Initial measurement of property, plant and equipment</b>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
<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> <ul style="list-style-type: none"> <li>(a) fair value; or</li> <li>(b) cost or depreciated cost in accordance with IFRSs, adjusted to reflect, for example, changes in a general or specific price index.</li> </ul>
<b>Aspect of the minimum information:</b>	Appropriate measurement of an element.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes to allow for a deemed cost approach in analogy to IFRS 1 at first-time adoption of accrual basis IPSASs. An accurate measurement of property, plant and equipment is <b>relevant</b> as it is capable of making a difference in achieving the objectives of financial reporting. An accurate measurement contributes to provide information useful for accountability purposes, to the ability of an entity to fulfill its service delivery objectives, etc. In addition, it has confirmatory value as well as predictive value (e.g. for the determination of future depreciation)).</p> <p>Using fair value at first-time adoption to value property, plant and equipment will likely result in <b>relevant</b> information and will likely achieve <b>faithful representation</b>. Allowing entities to use the deemed cost approach, might result in cost savings necessary for retrospectively applying IPSAS 17 (e.g. for entities previously applying the cash basis of accounting). Using fair value at the entity's date of transition to IPSASs as its deemed cost could be an appropriate alternative where cost</p>	



	<p>information is not available. Having the possibility to use the deemed cost approach entities can exercise their own discretion about applying fair value on initial adoption.</p> <p>Fair value fulfils the qualitative characteristic of <b>understandability</b>. In case that an entity has applied the accrual basis of accounting and used a cost-based measurement approach, the <b>cost</b> for preparers of fair value measurement tend to be higher than measurement based on cost. The possibility of a first-time adopter to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IPSASs as deemed cost at the date of the revaluation (under certain conditions) contributes to save costs for preparers at first-time adoption.</p> <p>Staff proposes to also allow entities to measure property, plant, and equipment acquired at no cost, or for a nominal cost using the deemed cost approach. Measuring such property, plant and equipment using the deemed cost approach is more relevant and likely less costly than measuring it at fair value <i>as at the date of acquisition to IPSASs</i>. This measurement approach for property, plant, and equipment acquired at no cost, or for a nominal cost is able to faithfully represent an entity's financial position at the first-time adoption of accrual basis IPSAS.</p>
<b>Fair presentation consideration:</b>	The deemed cost approach allows for fair presentation of property, plant and equipment at first-time adoption of accrual basis IPSASs.
<b>Practical complexity/difficulty:</b>	When entities implement accrual accounting in accordance with IPSASs for the first time, they often experience difficulties in compiling the required information for the valuation of assets at first-time adoption (e.g. for property, plant, and equipment that was acquired several years ago, or property, plant, and equipment that was acquired in a non-exchange transaction). Especially entities applying previously the cash basis of accounting need to undertake considerable efforts to measure all their property, plant, and equipment.
<b>Proposal for ED:</b>	<ol style="list-style-type: none"> <li>1. Allow for deemed cost approach as provided by IFRS 1.D5-D7 also under IPSAS at first-time adoption.</li> <li>2. Entities should also be allowed to measure property, plant, and equipment that were acquired at no cost, or for a nominal cost, using the deemed cost approach at first-time adoption.</li> </ol>
<b>Basket:</b>	Basket 1, as the deemed cost approach allows for fair presentation of property, plant, and equipment in an entity's first IPSAS financial statements

At its **September 2012 meeting** the IPSASB expressed the view that entities should be allowed to use the deemed cost approach based on fair value for property, plant, and equipment as provided by IFRS 1.D5-D7 under IPSAS at first-time adoption. Entities should also be allowed to use the deemed cost approach for items of property, plant, and equipment that were acquired at no cost, or for a nominal cost.



# **Assessment of Transitional Provisions Related to IPSAS 18, *Segment Reporting***

<b>Accounting issue:</b>	<b>Requirement to disclose financial information by segments</b>	
<b>Minimum information affected:</b>	Notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions in IPSAS 18. When an entity publishes a complete set of financial statements that comply with IPSASs it has to apply IPSAS 18 (IPSAS 18.4).		No transitional provisions in IFRS 1.
<b>Aspect of the minimum information:</b>	Appropriate disclosures in the notes.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes to provide relief for reporting segment information at first-time adoption.</p> <p>Segment information is <b>relevant</b> as it provides additional information about the elements recognized in the statement of financial performance and in the statement of financial position and provided in the notes. Segment information is useful for decision-making as it presents additional information about the elements even over and above the other notes disclosure from a management perspective. The objective of accountability is not achieved directly as segment information largely builds on information already provided in financial statements and accompanying notes. On the other hand, segment information provides context for and additional information about the elements in the primary financial statements and is therefore necessary for accountability. Segment information is likely to be <b>material</b> as its omission could influence the discharge of accountability by an entity or the decisions that users make on its basis. The <b>costs</b> of providing such information at first-time adoption are likely to be high. The <b>benefits</b> of segment reporting could vary depending on the entity. Some entities (e.g. at lower levels of government) might not be able to define a proper set of segments.</p> <p>Staff has identified a trade-off between the qualitative characteristics and the constraints on information.</p>	
<b>Fair presentation consideration:</b>	Despite the fact that the presentation of segment information might be useful, having a period of time where an entity is not required to present segment information may not affect the fair presentation of financial statements. Segment reporting provides information which is presented on top of the information on elements presented in the financial statements.	

<b>Practical complexity/difficulty:</b>	As the requirements of IPSAS 18 for financial reporting and for the underlying IT-/ ERP-systems are very high, especially on a consolidated level, entities often experience difficulties in compiling the required information. In practice, segments as defined in IPSAS 18 often do not correspond to the existing IT- and/or accounting/reporting structure. Compliance with IPSAS 18 therefore might require considerable changes in terms of IT-infrastructure and in terms of organizational structure (responsibilities). Especially entities applying previously the cash basis of accounting and having not prepared and presented segment information in their previous financial statements might need to undertake considerable efforts to provide segment information at first-time adoption.
<b>Proposal for ED:</b>	Staff is of the view that in the initial phase of adopting accrual basis IPSASs, the costs of reporting financial information by segments outweigh relevance and materiality. Also the practical complexities/difficulties involved with reporting segment information implies that entities may require relief at first-time adoption. Whereas segment reporting provides additional information useful for decision-making, it only partly contributes to fulfill the primary objective of accountability as it builds on existing information in financial statements. In addition, staff is of the view that having a period of time where an entity is not required to present segment information may not affect fair presentation of financial statements. Therefore, staff proposes a transitional provision for reporting segment information based on time which is in line with grace periods given in other standards (e.g. reporting segment information on a date within three years following the date of first adoption of accrual basis IPSASs).
<b>Basket:</b>	Basket 1, as having a period of time where an entity is not required to present segment information may not affect the fair presentation of the financial statements of an entity.

At its **September 2012** meeting the IPSASB was of the view that a transitional provision for reporting segment information based on time (e.g., reporting segment information on a date within three years following the date of first adoption of accrual basis IPSASs) should be provided in the first-time adoption ED. It was mentioned that the length of the grace period should be in line with grace periods given in other standards. The IPSASB generally supported the view that such a transitional provision should be considered as a basket 1 transitional provision.

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** December 3-6, 2012

## Agenda Item 7.2

For:

☐ Approval

☒ Discussion

☐ Information

### ISSUES PAPER ON THE ASSESSMENT OF TRANSITIONAL ACCOUNTING ISSUES OF IPSAS 19 TO IPSAS 22, IPSAS 24, IPSAS 26 TO IPSAS 27 AND IPSAS 31

#### Objective of Issues Paper

1. The objective of this Issues Paper is to **provide**:
  - (a) an assessment of transitional accounting issues of IPSAS 19 to IPSAS 22, IPSAS 24, IPSAS 26 to IPSAS 27 and IPSAS 31 based on a pre-defined set of criteria, and
  - (b) concluding proposals for the ED on First-time Adoption of Accrual Basis IPSASs
 for **review** and **discussion** by the IPSASB.

#### Background

2. In the September 2012 meeting, staff was asked to (a) analyze the transitional accounting issues for IPSAS 19 to IPSAS 32, and (b) to re-draft the Exposure Draft based on results achieved at the September 2012 meeting and bring back these paper to the December 2012 meeting.
3. So far staff was not able to perform an assessment of:
  - (a) *IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)*
  - (b) *IPSAS 25, Employee Benefits*
  - (c) *IPSAS 28-30, Financial Instruments*
  - (d) *IPSAS 32, Service Concession Arrangements*
4. Staff will bring back the assessments of the transitional provisions for these Standards to the next meeting. Staff has also decided to cover overarching issues related to transitional provisions at first-time adoption of accrual basis IPSASs (e.g. the interplay between IPSAS 13 and IPSAS 17, IPSAS 21/26 and IPSAS 17, or decommissioning, restoration and similar liabilities according to IPSAS 19 and IPSAS 17) at the next meeting. Also the reporting of the effect of the initial application of a Standard in the first IPSAS financial statements (e.g. the effect of the initial recognition of assets or of impairment) is intended to be an issue at the next meeting.

**Action requested:**

**Matter for Consideration**

3. Members are asked to **review** and **discuss** the assessments of proposed transitional provisions for IPSAS 19 to IPSAS 22, IPSAS 24, IPSAS 26 to IPSAS 27 and IPSAS 31.

**Assessment of Transitional Provisions Related to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets***

<b>Accounting issue:</b>	<b>Recognition (and measurement) of provisions at first-time adoption of accrual basis IPSASs (other than decommissioning, restoration and similar liabilities)</b>	
<b>Outline of issue:</b>	<ul style="list-style-type: none"> <li>• If a provision fulfills the definition of a liability and meets the recognition criteria in IPSAS 19.22, it needs to be recognized in an entity's financial statements.</li> <li>• The amount that a provision is recognized at should be the best estimate of the expenditure that will be needed to settle the liability (the present obligation) at the reporting date (cf. IPSAS 19.44).</li> <li>• At its September 2012 meeting the IPSASB concluded that staff should consider a grace period for the recognition of investment property and property, plant, and equipment on the basis that such relief is going to be classified as a basket 2 transitional provision. The question is whether the IPSASB should consider such a transitional provision for the recognition of provisions.</li> </ul>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions.		No transitional provisions.
<b>Aspect of the minimum information:</b>	Appropriate recognition (and measurement) of an element.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff has considered whether a grace period for the recognition of provisions is necessary.</p> <p>The recognition of provisions at first-time adoption of IPSASs is a matter of <b>relevance</b>, as it is capable of making a difference in achieving the objectives of financial reporting. During a grace period where entities are not required to recognize provisions the qualitative characteristic of <b>faithful representation</b> is not fulfilled. Financial statements which do not show all provisions required by IPSAS 19 do not give a complete picture of the financial position of an entity. Also the qualitative characteristic of <b>comparability</b> is not going to be achieved, as users will not be able to compare the financial statements where provisions have not been recognized and where they have been recognized. In addition, provisions (other than employee benefits) may be a <b>material</b> item in the statement of financial position. Depending on an entity's operation and on its previous basis of accounting the <b>cost</b> for providing information about provisions may be high, but also the <b>benefits</b> of providing this information</p>	

	<p>seem to be high for users and preparers.</p> <p>In staff's view the QCs of <b>faithful representation</b> and <b>relevance</b> outweighs all other qualitative characteristics/constraints.</p>
<b>Fair presentation consideration:</b>	<p>Not recognizing provisions in an entity's first IPSAS financial statements affects fair presentation of an entity's financial position at first-time adoption. Where a provision fulfills the definition of a liability according to IPSASs and meets the recognition criteria in IPSAS 19.22, it needs to be recognized in an entity's financial statements.</p>
<b>Practical complexity/difficulty:</b>	<p>When entities implement accrual accounting in accordance with IPSASs for the first time, they may experience difficulties in compiling the required comprehensive information on the existence and valuation of liabilities (e.g. to recognize provisions which have not been recognized according to an entity's previous basis of accounting or derecognize provisions which do not need to be recognized according to IPSAS 19 anymore; the reassessment of open law suits may require considerable efforts as well as the determination of the best estimate of a provision which considers the risks and uncertainties surrounding the events and circumstances that have caused the provision to arise (cf. IPSAS 19.50) as well as the identification of expected future events that may impact the amount expected to settle the obligation could be difficult(cf. IPSAS 19.58)). Considerable effort will be required by entities previously applying the cash basis of accounting to recognize and measure all their provisions for the first time (e.g. setting up the organizational structure for an organization-wide recognition of provisions, the development of appropriate accounting policies for provisions or the initial recognition and measurement of provisions for environmental liabilities or onerous contracts).</p>
<b>Proposal for ED:</b>	<p>Based on the qualitative characteristic of faithful representation and relevance as well as the fair presentation consideration, staff is of the view that entities should be required to have a complete picture of all its liabilities at first-time adoption. Therefore, entities should be required to recognize provisions according to IPSAS 19 at first-time adoption of IPSASs. No transitional provisions should be required.</p>
<b>Basket:</b>	<p>No transitional provision should be provided.</p>



<b>Accounting issue:</b>	<b>Disclosure of contingent liabilities and contingent assets at first-time adoption</b>	
<b>Outline of issue:</b>	<ul style="list-style-type: none"> <li>• A <b>contingent liability</b>, as defined by IPSAS 19.18, is not recognized in the statement of financial position (cf. IPSAS 19.35). Instead it is disclosed in the notes to the financial statements (unless the possibility of an outflow is remote in which case it needs not to be disclosed, cf. IPSAS 19.100).</li> <li>• Depending on the contractual arrangement guarantee contracts can fall in the category of contingent liabilities. Contingent liabilities also include liabilities arising from legal actions and claims. Therefore, there is a close relationship to provisions, other than employee benefits.</li> <li>• A <b>contingent asset</b>, as defined by IPSAS 19.18, is not recognized in the statement of financial position (cf. IPSAS 19.42). Instead it needs to be disclosed in the notes to the financial statements if it is probable that the benefits will be realized (cf. IPSAS 19.105).</li> </ul>	
<b>Minimum information affected:</b>	Notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions.		No transitional provisions.
<b>Aspect of the minimum information:</b>	Appropriate disclosures in the notes.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff has considered whether a grace period for the disclosure of contingent assets and contingent liabilities is necessary.</p> <p>The scope of disclosures of contingent liabilities and contingent assets depends on the type of entity (e.g. entities which have the authority to issue guarantees might have much more contingent liabilities than entities which do not). In particular the disclosure of contingent liabilities and contingent assets is a matter of <b>relevance</b>, as it is capable of making a difference in achieving the objectives of financial reporting. During a grace period where entities do not disclose contingent liabilities and contingent assets the qualitative characteristic of <b>faithful representation</b> is not fulfilled. Contingent liabilities have a close relationship with provisions or other liabilities and contingent assets a close relationship with assets; therefore they might have an impact on an entity's future financial position and performance. Financial statements which not show all contingent liabilities and contingent assets do not give a complete picture of the financial situation of an entity. Also the qualitative characteristic of <b>comparability</b> is not going to be achieved, as users will not be able to compare the financial statements where contingent liabilities and contingent assets have not been disclosed and where they have been disclosed. In addition, contingent liabilities and contingent</p>	

	<p>assets could be <b>material</b> as their omission could influence the discharge of accountability by an entity. Depending on an entity's operation and on its previous basis of accounting the <b>cost</b> for providing information about contingent liabilities and contingent assets could be high, but also the <b>benefits</b> of this information (especially with respect to contingent liabilities) seem to be high for preparers and users.</p> <p>In staff's view the QCs of <b>faithful representation</b> and <b>relevance</b> outweighs all other qualitative characteristics/constraints.</p>
<b>Fair presentation consideration:</b>	<p>Not disclosing contingent liabilities and contingent assets in an entity's first IPSAS financial statements affects fair presentation of an entity's financial position at first-time adoption. Where a contingent liability or asset meets the criteria of IPSAS 19.18, they need to be disclosed in an entity's financial statements.</p>
<b>Practical complexity/difficulty:</b>	<p>When entities implement accrual accounting in accordance with IPSASs for the first time, they may experience difficulties in compiling the required information on the existence and valuation of contingent liabilities and contingent assets. Considerable effort may be required by entities applying previously the cash basis of accounting to identify and measure all their contingent liabilities and contingent assets for the first time (e.g. setting up the organizational structure for an organization-wide identification of contingent liabilities and contingent assets or the development of appropriate accounting policies for contingent liabilities and contingent assets (e.g. for guarantee contracts)).</p>
<b>Proposal for ED:</b>	<p>In staff's view transitional provisions for the disclosure of contingent liabilities and contingent assets at first-time adoption should be in line with transitional provisions for the recognition of provisions at first-time adoption. As staff concluded that there should not be transitional provisions for the recognition of provisions at first-time adoption, staff is of the view that relief for the disclosure of contingent liabilities and contingent assets should not be provided. The arguments for a requirement to disclose contingent liabilities and contingent assets at first-time adoption are the same as for the recognition of provisions.</p>
<b>Basket:</b>	<p>No transitional provision should be provided.</p>

**Assessment of Transitional Provisions Related to IPSAS 20, *Related Party Disclosures***

<b>Accounting issue:</b>	<b>Requirement to disclose related party relationships, related party transactions and information about key management personnel at first-time adoption</b>	
<b>Outline of issue:</b>	<ul style="list-style-type: none"> <li>An entity is required to disclose information on:               <ul style="list-style-type: none"> <li>(a) Related party relationships where control exists, irrespective of whether there have been transactions between the related parties (cf. IPSAS 20.25 et seq.).</li> <li>(b) Related party transactions in certain circumstances (cf. IPSAS 20.27 et seq.).</li> <li>(c) Remuneration and compensation, as well as loans, advanced to key management personnel and related parties (cf. IPSAS 20.34 et seq.).</li> </ul> </li> </ul>	
<b>Minimum information affected:</b>	Notes disclosures.	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions.		No transitional provisions.
<b>Aspect of the minimum information:</b>	Appropriate disclosures.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>The disclosure of related party relationships, related party transactions and information about key management personnel in an entity's first IPSAS financial statements is <b>relevant</b> as it provides information required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity. Not disclosing related party disclosures will likely not result in a <b>faithful representation</b> of the financial position/performance of an entity. Faithful representation might not be achieved as the existence of related party relationships may affect user's assessment of the financial position and financial performance of an entity. As public sector entities might have to identify and assess a considerable amount of related party relationships the <b>cost</b> for the provision of information required by IPSAS 20 is likely to be high. But there are also <b>benefits</b> to users for disclosing such relationships as those disclosures supplement the information presented in the financial statements.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that faithful representation and relevance outweigh the costs of providing such information.</p>	

<b>Fair presentation consideration:</b>	Not disclosing related party relationships, related party transactions and information about key management personnel at first-time adoption affects fair presentation of an entity's financial position at first-time adoption.
<b>Practical complexity/difficulty:</b>	Entities which have not disclosed related party relationships in their previous financial statements may find it cumbersome to identify and assess all their related party relationships and related party transactions.
<b>Proposal for ED:</b>	As the existence of a related party relationships may have an effect on user's assessment of the financial position and the financial performance of an entity, staff proposes to not provide a transitional provision for related party disclosures at first-time adoption. Therefore, entities should be required to disclose related party relationships, related party transactions and information about key management personnel in their first IPSAS financial statements.
<b>Basket:</b>	No transitional provision should be provided.

**Assessment of Transitional Provisions Related to IPSAS 21, *Impairment of Non-Cash Generating Assets***

<b>Accounting issue:</b>	<b>Retrospective accounting for impairment of non-cash generating assets</b>	
<b>Outline of issue:</b>	<ul style="list-style-type: none"> <li>Following IPSAS 21.26 an entity shall assess at each reporting date whether there is any indication that a non-cash generating asset may be impaired.</li> <li>According to IPSAS 3 an entity would have to apply IPSAS 21 retrospectively.</li> </ul>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
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).		There is no transitional provision in IFRS 1 related to the application of IAS 36, which might imply that the standard should be applied retrospectively. The Implementation Guidance in IFRS 1.IG 39 et seq. indicates that a first-time adopter should focus on the date of transition. As a consequence, entities do not need to remeasure previous impairment losses, or recognize an impairment loss that would have been recognized if IFRS had been applied instead of previous GAAP.
<b>Aspect of the minimum information:</b>	Appropriate measurement of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes that entities should not be required to apply IPSAS 21 retrospectively.</p> <p>Not applying IPSAS 21 retrospectively can be a matter of <b>relevance</b> as it is capable of making a difference in achieving the objectives of financial reporting. Not applying IPSAS 21 retrospectively at first-time adoption of accrual basis IPSASs might not result in a <b>faithful representation</b> of the financial position/performance of an entity. Faithful representation might not be achieved as entities would not be required to remeasure previous impairment losses, or would not be required to recognize an impairment loss that would have been recognized if IPSAS had been applied instead of previous GAAP. The <b>cost</b> of retrospectively applying IPSAS 21 can be very high. The efforts necessary for retrospective identification of indications that an asset may be impaired can be considerable. In some cases it is even impossible to determine the required external or internal</p>	

	<p>information to determine whether there are any indications for impairment. Whether events or circumstances that indicate an impairment will be significant often depend on judgment by the governing board or management of an entity and their estimates at previous reporting dates. Getting the required information for such estimates from a governing board or management on a retrospective basis is in most cases impracticable and may require the use of “hindsight” as the assessments may not have been done at that point; which is inappropriate.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that the high costs for applying IPSAS 21 retrospectively outweigh faithful representation and relevance.</p>
<b>Fair presentation consideration:</b>	Because of the fact that it is often impracticable to determine the required information for IPSAS 21 retrospectively, staff is of the view that not applying IPSAS 21 retrospectively, does not affect fair presentation.
<b>Practical complexity/difficulty:</b>	Based on the fact that entities may have adopted accounting policies under their previous basis of accounting for the recognition and reversal of impairment losses, it might be difficult to determine the amount of adjustments resulting from a retrospective application of the change in accounting policy (cf. IPSAS 21.81). As outlined under the cost-criterion in some cases it can even be impracticable to determine the required external or internal information to determine whether there were any indications for impairment. The extent of impairment testing and the required expertise might also result in the need for additional independent expertise to assist with the required valuations.
<b>Proposal for ED:</b>	Based on the practical complexity/difficulty-criterion and the cost-criterion staff proposes to keep the existing transitional provision in IPSAS 21, i.e. entities should only be required to apply IPSAS 21 prospectively. This means, that first-time adopters are required to apply IPSAS 21 prospectively from the date of transition to IPSASs. As a consequence, entities would be required to perform an impairment test under IPSAS 21 for its non-cash generating assets in the opening statement of financial position if there is any indication at the date of transition that the respective assets are impaired.
<b>Basket:</b>	Basket 1, as staff assumes that not applying IPSAS 21 retrospectively, does not affect fair presentation

**Assessment of Transitional Provisions Related to IPSAS 22, *Disclosure of Financial Information about the General Government Sector***

<b>Accounting issue:</b>	<b>Requirement to disclose financial information about the General Government Sector (GGS) in accordance with IPSAS 22 where a government elects to present information about the GGS in its consolidated financial statements</b>	
<b>Outline of issue:</b>	<ul style="list-style-type: none"> <li>According to IPSAS 22.2 a government that prepares and presents consolidated financial statements under the accrual basis of accounting and elects to disclose financial information about the GGS shall do so in accordance with the requirements of IPSAS 22.</li> <li>As the IPSAS 22 requirements shall only be applied when the entity elects to disclose financial information about the GGS in its financial statements the application of the requirements of IPSAS 22 is at the discretion of a government.</li> </ul>	
<b>Minimum information affected:</b>	Notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions in IPSAS 22.		Not applicable, as there is no IFRS-equivalent to IPSAS 22.
As the application of IPSAS 22 is at the discretion of an entity, staff is of the view that no transitional provisions regarding IPSAS 22 should be provided. Therefore, staff decided to not provide any further analysis of the issue.		
<b>Proposal for ED:</b>	Staff is of the view that entities preparing and presenting consolidated financial statements under the accrual basis of accounting and electing to disclose financial information about the GGS should be required to present information about the GGS in accordance with IPSAS 22. Staff is of the view that no transitional provision regarding the application of IPSAS 22 is required.	
<b>Basket:</b>	No transitional provision should be provided.	

<b>Accounting issue:</b>	<b>Requirement to present comparative information for the disclosure of financial information about the General Government Sector</b>	
<b>Outline of issue:</b>	<ul style="list-style-type: none"> <li>As entities are merely encouraged to present comparative information at first-time adoption of accrual basis IPSASs, an entity can elect whether it wants to provide comparative information or not.</li> <li>As IPSAS 22 neither provides a transitional provision for the presentation of comparative information nor a statement in the body of the Standard entities would be required to present comparative information for the disclosure of financial information about the General Government Sector in their first IPSAS financial statements.</li> <li>Unlike IPSAS 22, IPSAS 24.52 states that the disclosure of comparative information in respect of the previous period in accordance with the requirements of IPSAS 24 is not required. Based on this, entities electing to present comparative information in their first IPSAS financial statements would not be required to disclose comparative information for budget information.</li> <li>The question is whether entities which elect to provide comparative information at first-time adoption of accrual basis IPSASs should be required to present comparative information also for the disclosure of financial information about the General Government Sector.</li> </ul>	
<b>Minimum information affected:</b>	Notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions in IPSAS 22.		Not applicable, as there is no IFRS-equivalent.
<b>Aspect of the minimum information:</b>	Presenting comparative information for the disclosure of financial information about the General Government Sector in an entity's first IPSAS financial statements contributes to the objectives of financial reporting. The presentation of such information enables users to identify similarities in, and differences between two sets of information. In addition, it enhances the transparency of financial reports, and contributes to a better understanding of the relationship between the market and non-market activities of the government, and between financial statements and statistical bases of financial reporting.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	Comparative information for the disclosures of financial information about the General Government Sector provides <b>relevant</b> information as such information can support and enhance the decision-making of, and accountability to, users of those statements. For example, such information will assist users of the financial statements to better understand the relationship between the GGS and the corporations sector, and the impact each have on overall financial performance (cf. IPSAS 22.10). Comparative information is able to provide that information in a longitudinal perspective. Comparative information for such	



	<p>disclosures in an entity's first IPSAS financial statements enables users to identify similarities in, and differences between, two sets of phenomena; it therefore contributes to the qualitative characteristic of <b>comparability</b>.</p> <p>The provision of such information is likely to be <b>material</b> as its omission could influence the discharge of accountability by an entity or the decisions that users make. The <b>costs</b> of providing such information at first-time adoption are likely to be high. The <b>benefits</b> of presenting such comparative information at the end of the first year of the transition period to users are also likely to be high.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that relevance and comparability outweigh the cost for providing such information.</p>
<b>Fair presentation consideration:</b>	<p>If an entity is not required to provide comparative information for the disclosures of financial information about the General Government Sector, then information which is useful for accountability and decision-making purposes will not be presented to users. As such information will assist users in reconciling information presented in financial statements to information presented in statistical reports and get an understanding of that information over time, fair presentation will likely not be achieved.</p>
<b>Practical complexity/difficulty:</b>	<p>The preparation of such information in an entity's first IPSAS financial information can be cumbersome. An entity might be required to arrange for the organizational prerequisites to provide such information.</p>
<b>Proposal for ED:</b>	<p>Staff is of the view, that where an entity elects to present comparative information in its first IPSAS financial statements, it would be consistent that entities should be required to present comparative information for the disclosures of financial information about the General Government Sector.</p> <p>Based on the qualitative characteristics of relevance and comparability and the fair presentation consideration staff proposes that entities which elect to provide comparative information at first-time adoption of accrual basis IPSASs should be required to present comparative information also for the disclosures of financial information about the General Government Sector in its first IPSAS financial statements.</p>
<b>Basket:</b>	<p>No transitional provision required.</p>

**Assessment of Transitional Provisions Related to IPSAS 24, *Presentation of Budget Information in Financial Statements***

Accounting issue:	Requirement to present budget information in an entity's first IPSAS financial statements	
Outline of issue:	<ul style="list-style-type: none"> <li>IPSAS 1 clarifies that a complete set of financial statements comprises a comparison of budget and actual amounts, when the entity makes publicly available its approved budget (cf. IPSAS 1.21)</li> <li>According to IPSAS 24.14 an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the entity's financial statements.</li> <li>IPSAS 24.31 requires that all comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.</li> <li>Where the financial statements and the budget are not prepared on a comparable basis, an entity needs to reconcile the actual amounts presented on a comparable basis to the budget in accordance with paragraph 31 to the following actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences:                             <ul style="list-style-type: none"> <li>If the accrual basis is adopted for the budget, total revenues, total expenses, and net cash flows from operating activities, and financing activities; or</li> <li>If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities, and financing activities.</li> </ul> </li> </ul> <p>This reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts, or in the notes to the financial statements (cf. IPSAS 24.47).</p>	
Minimum information affected:	Comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
Transitional Provisions in IPSAS:		Transitional Provisions in IFRS 1:
No transitional provisions in IPSAS 24.		Not applicable, as there is no IFRS-equivalent.
Aspect of the minimum information:	A comparison of budget and actual amounts presents additional information about the objectives of financial reporting. The presentation of such information ensures that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements.	
Assessment based on the qualitative characteristics of, and constraints on,	<p>Staff proposes to not provide relief for presenting budget information in an entity's first IPSAS financial statements.</p> <p>A comparison of budget and actual amounts provides <b>relevant</b></p>	

<p><b>information:</b></p>	<p>information as it links an entity's budget and its financial statements. Approved budgets are of major significance in the public sector as they are the primary method by which the legislature exercises oversight and citizens and their elected representatives hold the government's management financially accountable. A comparison of budget and actual amounts ensures (a) that entities discharge their accountability obligations and (b) transparency of reporting in their financial statements (ba) compliance with the approved budget(s) for which they are held publicly accountable and (bb) where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results. The inclusion of such a comparison in the financial statements of an entity assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the entity comply with the estimates reflected in approved budgets, and the entity's adherence to relevant legislation or other authority governing the raising and use of public monies. Such information is important in determining how well a public sector entity has met its financial objectives and it therefore informs decision-making.</p> <p>By the presentation of a comparison of budget and actual information an entity is able to achieve <b>faithful representation</b>. Only with a presentation of such a comparison an entity is able to discharge its accountability obligations.</p> <p>A comparison of budget and actual amounts is likely to be <b>material</b> as its omission could influence the discharge of accountability by an entity or the decisions that users make. The <b>costs</b> of providing such information at first-time adoption are likely to be high. The <b>benefits</b> of reporting such information to users are likely to be high as they are able to determine how well a public sector entity has met its financial objectives.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that relevance clearly outweighs the cost for providing such information.</p>
<p><b>Fair presentation consideration:</b></p>	<p>Not presenting a comparison of budget and actual amounts at first-time adoption will likely not result in fair presentation. If an entity is not required to present such a comparison at first-time adoption, then information which is useful for accountability and decision-making purposes will not be presented to users. As such information is important in determining how well a public sector entity has met its financial objectives, fair presentation will not be achieved.</p>

<b>Practical complexity/difficulty:</b>	Where the financial statements and the budget are not prepared on a comparable basis, an entity needs to reconcile the actual amounts presented on a comparable basis to the budget. As entities are required to separately identify any basis, timing, and entity differences, such a reconciliation can be cumbersome, especially when there are differing versions of the budget made available to the public at different points in the reporting period. As such reconciliations and the identification of basis, timing, and entity differences may need considerable communication between budgeting and accounting units within an entity, this might cause additional coordination efforts.
<b>Proposal for ED:</b>	Based on the relevance of presenting a comparison of budget and actual amounts staff is of the view that entities should be required to present a comparison of budget and actual amounts at first-time adoption. IPSAS 24 reflects the unique requirements of the public sector in comparison to those of the private sector. Providing a transitional provision based on time for such a comparison would undermine these public sector specific aspects. A comparison of budget and actual amounts should therefore belong to the minimum information required at first-time adoption. In summary, staff is of the view that no transitional provision for the presentation of budget information in an entity's first IPSAS financial statements should be provided.
<b>Basket:</b>	No transitional provision required.

**Assessment of Transitional Provisions Related to IPSAS 26, *Impairment of Cash Generating Assets***

<b>Accounting issue:</b>	<b>Retrospective accounting for impairment of cash generating assets</b>	
<b>Outline of issue:</b>	<ul style="list-style-type: none"> <li>Following IPSAS 26.22 an entity shall assess at each reporting date whether there is any indication that a cash generating asset may be impaired.</li> <li>According to IPSAS 3 an entity would have to apply IPSAS 26 retrospectively.</li> </ul>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
IPSAS 26 does not provide any transitional provisions, but staff assumes that by analogy to IPSAS 21.80 entities would not be required to account for impairments of cash generating assets on a retrospective basis.		There is no transitional provision in IFRS 1 related to the application of IAS 36, which might imply that the standard should be applied retrospectively. The Implementation Guidance in IFRS 1.IG 39 et seq. indicates that a first-time adopter should focus on the date of transition. As a consequence, entities do not need to remeasure previous impairment losses, or recognize an impairment loss that would have been recognized if IFRS had been applied instead of previous GAAP.
<b>Aspect of the minimum information:</b>	Appropriate measurement of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes that entities should not be required to apply IPSAS 26 retrospectively.</p> <p>Not applying IPSAS 26 retrospectively can be a matter of <b>relevance</b> as it is capable of making a difference in achieving the objectives of financial reporting. Not applying IPSAS 26 retrospectively at first-time adoption of accrual basis IPSASs might not result in a <b>faithful representation</b> of the financial position/performance of an entity. Faithful representation might not be achieved as entities would not be required to remeasure previous impairment losses, or would not be required to recognize an impairment loss that would have been recognized if IPSAS had been applied instead of previous GAAP. The <b>cost</b> of retrospectively applying IPSAS 26 can be very high. The efforts necessary for retrospective identification of indications that an asset may be impaired can be considerable. In some cases it is even impossible to determine the required external or internal information to determine whether there are any indications for</p>	

	<p>impairment. Whether events or circumstances that indicate an impairment will be significant often depend on judgment by the governing board or management of an entity and their estimates at previous reporting dates. Getting the required information for such estimates from a governing board or management on a retrospective basis is in most cases impracticable and may require the use of “hindsight” as the assessments may not have been done at that point; which is inappropriate.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that the high costs for applying IPSAS 26 retrospectively outweigh faithful representation and relevance.</p>
<b>Fair presentation consideration:</b>	Because of the fact that it is often impracticable to identify the required information for IPSAS 26 retrospectively, staff is of the view that not applying IPSAS 26 retrospectively, does not affect fair presentation.
<b>Practical complexity/difficulty:</b>	Based on the fact that entities may have adopted accounting policies under their previous basis of accounting for the recognition and reversal of impairment losses, it might be difficult to determine the amount of adjustments resulting from a retrospective application of the change in accounting policy. As outlined under the cost-criterion in some cases it can even be impracticable to determine the required external or internal information to determine whether there were any indications for impairment. The extent of impairment testing and the required expertise may also result in the need for additional independent expertise to assist with the required valuations.
<b>Proposal for ED:</b>	Based on the practical complexity/difficulty-criterion and the cost-criterion staff proposes that entities should only be required to apply IPSAS 26 prospectively. This means, that first-time adopters are required to apply IPSAS 26 prospectively from the date of transition to IPSASs. As a consequence, entities would be required to perform an impairment test under IPSAS 26 for its non-cash generating assets in the opening statement of financial position if there is any indication at the date of transition that the respective assets are impaired.
<b>Basket:</b>	Basket 1, as staff assumes that not applying IPSAS 26 retrospectively does not affect fair presentation.

**Assessment of Transitional Provisions Related to IPSAS 27, Agriculture**

<b>Accounting issue:</b>	<b>Recognition of biological assets and agricultural produce at first-time adoption of accrual basis IPSASs</b>	
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures	
<b>Outline of issue:</b>	<p>According to IPSAS 27.13 an entity shall recognize a biological asset or agricultural produce when</p> <ul style="list-style-type: none"> <li>(a) The entity controls the asset as a result of past events;</li> <li>(b) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and</li> <li>(c) The fair value or cost of the asset can be measured reliably.</li> </ul>	
<b>Transitional Provisions in IPSAS:</b>		<b>Transitional Provisions in IFRS 1:</b>
No transitional provisions.		No transitional provisions.
<b>Aspect of the minimum information:</b>	Appropriate recognition of elements.	
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff is of the view that entities should be required to recognize biological assets and agricultural produce at the date of transition to IPSAS. No transitional provisions should be provided at first-time adoption.</p> <p>Depending on an entity's operations, the recognition of biological assets and agricultural produce at first-time adoption of IPSASs could be a matter of <b>relevance</b>, as it is capable of making a difference in achieving the objectives of financial reporting. Having a grace period where entities would not be required to recognize biological assets and agricultural produce the qualitative characteristic of <b>faithful representation</b> is not fulfilled. Financial statements not showing all biological assets and agricultural produce do not give a complete picture of the financial position of an entity. Also the qualitative characteristic of <b>comparability</b> is not going to be achieved, as users will not be able to compare the financial statements where biological assets and agricultural produce has not been recognized and where it has been recognized. In addition, depending on the entity's operations, biological assets and agricultural produce is likely to be a <b>material</b> item in the statement of financial position. Also large amounts of biological assets and agricultural produce by an entity the <b>cost</b> of providing that information is likely to be high; but also the <b>benefits</b> of these information seem to be high for preparers and users of those financial statements.</p> <p>In staff's view the QC of <b>faithful representation</b> outweighs all other</p>	

	qualitative characteristics/constraints.
<b>Fair presentation consideration:</b>	Not recognizing biological assets and agricultural produce in an entity's first IPSAS financial statements affects fair presentation of an entity's financial position at first-time adoption. Where an item of biological assets or agricultural produce complies with the definition of an asset according to IPSASs and meets the recognition criteria, it needs to be recognized in an entity's first IPSAS financial statements.
<b>Practical complexity/difficulty:</b>	On the one hand, there are jurisdictions with only few or even no public sector entities performing agricultural activities. On the other hand, agricultural activity can be significant for the public sector in certain parts of the world, including many developing countries. Such entities can have large amounts of biological assets and agricultural produce. Staff assumes that in most cases biological assets and agricultural produce are sold or distributed at no or for a nominal charge. Besides the fair value measurement where entities have previously measured biological assets and agricultural produce at cost staff has not identified major complexities or difficulties involved with the recognition of biological assets and agricultural produce at first-time adoption.
<b>Proposal for ED:</b>	Based on the practical complexity/difficulty criterion, staff is of the view that the IPSASB should consider whether entities should be required to recognize biological assets and agricultural produce at the date of transition to IPSASs. Entities which have significant agricultural activities may find a grace period for the recognition of biological assets and agricultural produce of, for example, three years useful.
<b>Basket:</b>	No transitional provision should be provided.



# Assessment of Transitional Provisions Related to IPSAS 31, *Intangible Assets*

Accounting issue:	Retrospective recognition (and measurement) of intangible assets
Outline of issue:	<ul style="list-style-type: none"> <li>According to IPSAS 31.28 an intangible asset shall be recognized if, and only if, (a) it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity, and (b) the cost or fair value of the asset can be measured reliably. For example, entities are required to recognize a separately acquired in-process research or development project as an intangible asset if it fulfills the recognition criteria.</li> <li>Entities are required to assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Whereas the probability recognition criterion is always considered to be satisfied for separately acquired intangible assets through an exchange transaction, this might not necessarily be the case for intangible assets acquired through a non-exchange transaction.</li> <li>Because of the differing requirements for initial recognition and measurement of the various types of intangible assets an entity needs to distinguish between: <ul style="list-style-type: none"> <li>(a) Intangible heritage assets,</li> <li>(b) Intangible assets acquired separately through an exchange transaction;</li> <li>(c) Intangible assets acquired separately through a non-exchange-transaction;</li> <li>(d) Internally generated goodwill;</li> <li>(e) Research cost;</li> <li>(f) Development cost;</li> <li>(g) Intangible assets with a finite useful live; and</li> <li>(h) intangible asset with an indefinite useful live.</li> </ul> </li> <li>According to IPSAS 31.128, where an entity has previously recognized intangible assets the entity is required to apply IPSAS 31 retrospectively. As a result of this requirement, on initial adoption of IPSAS 31 an entity would be required to: <ul style="list-style-type: none"> <li>Reclassify any previously recognized assets/intangible assets according to IPSAS 31;</li> <li>Recognize intangible assets which were not recognized under the entities previous basis of accounting based on the recognition criteria of IPSAS 31;</li> <li>Derecognize intangible assets recognized under the entities previous basis of accounting but which are not in accordance with the recognition criteria of IPSAS 31;</li> <li>Remeasure existing (recognized) or measure newly recognized</li> </ul> </li> </ul>

	intangible assets in accordance with IPSAS 31.
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial position, statement of financial performance, statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures
<b>Transitional Provisions in IPSAS:</b>	<b>Transitional Provisions in IFRS 1:</b>
<p>IPSAS 31.128: An entity that has previously recognized intangible assets shall apply this Standard retrospectively in accordance with IPSAS 3.</p> <p>IPSAS 31.129: An entity that has not previously recognized intangible assets and uses the accrual basis of accounting shall apply this Standard prospectively. However, retrospective application is permitted.</p> <p><i>Staff would like to note:</i></p> <ul style="list-style-type: none"> <li>Based on the distinction between entities that have previously recognized intangible assets and entities that have not <u>and</u> based on the requirement of IPSAS 31.129, it remains unclear to staff whether entities applying the cash basis of accounting (assuming that such entities have not previously recognized intangible assets) under their previous basis of accounting shall apply IPSAS 31 retrospectively or prospectively.</li> <li>The assumption that where an entity previously has recognized intangible assets such an entity is able to apply IPSAS 31 retrospectively might not hold true. In a situation where an entity applied the cash basis under its previous basis of accounting (and has not recognized intangible assets during that time), then moved to a non-IPSAS compliant (modified) accrual basis and therefore “has previously recognized intangible assets”, and finally, after a few reporting periods, started to adopt the accrual basis IPSASs such an entity might not be able to apply IPSAS 31 retrospectively. As the entity has applied the accrual basis and recognized intangible assets only for some reporting periods, there might be intangible assets (e.g. internally</li> </ul>	No transitional provisions specifically on retrospective application of IAS 38.

<p>generated intangible assets) which date back to the time when the entity applied the cash basis of accounting. For such an entity it might be considerably cumbersome or even impracticable to (re-)classify and (re-)measure its intangible assets retrospectively according to IPSAS 31.</p>	
<p><b>Aspect of the minimum information:</b></p>	<p>Appropriate recognition, measurement and presentation of elements in an entity's first IPSAS financial statements.</p>
<p><b>Assessment based on the qualitative characteristics of, and constraints on, information:</b></p>	<p>Based on staff's view that entities which have previously recognized intangible assets might not be able to apply IPSAS 31 retrospectively, staff has considered a transitional provision where entities are not required to apply IPSAS 31 retrospectively, irrespective of whether they have previously recognized intangible assets or not.</p> <p>Depending on the entity's operations (e.g. for research institutions), not applying IPSAS 31 retrospectively can be a matter of <b>relevance</b> as it is capable of making a difference in achieving the objectives of financial reporting. Not applying IPSAS 31 retrospectively at first-time adoption might not result in a <b>faithful representation</b> of the financial position/performance of an entity (e.g. pre-existing intangible assets might not have been reclassified in accordance with IPSAS 31 or pre-existing intangible assets might not have been retrospectively remeasured in accordance with IPSAS 31). Depending on the entity's operations, the <b>cost</b> of retrospective application of IPSAS 31 at first-time adoption of accrual basis is likely to be considerably high, e.g. because of the requirement to reclassify existing intangible assets or to remeasure those assets retrospectively. But also the benefits for users of a retrospective application could be high.</p> <p>Staff has identified a <b>trade-off between the qualitative characteristics and the constraints on information</b>. Staff is of the view that cost might outweigh the qualitative characteristics of faithful representation and relevance.</p>
<p><b>Practical complexity/difficulty:</b></p>	<p>Irrespective of whether entities have recognized intangible assets under their previous basis of accounting, entities with many pre-existing intangible assets at first-time adoption might be required to undertake considerable efforts to (re-)classify their pre-existing intangible assets at first-time adoption. As outlined above entities which have previously applied the cash basis of accounting might not be able to apply IPSAS 31 retrospectively as for them it might be impracticable to retrieve the required information. Also the retrospective assessment of the probability of expected future economic benefits or service potential based on the best estimate of the set of economic conditions that will exist over the useful life of the asset for intangible assets acquired through a non-exchange transaction might be considerably cumbersome or even be impracticable to perform.</p>

	<p>Entities may also experience significant challenges for the remeasurement of intangible assets on a retrospective basis. For example, entities are required to include any directly attributable cost of preparing the asset for its intended use in the cost of a separately acquired intangible asset (such as the costs of employee benefits according to IPSAS 25). Entity might find this requirement considerably cumbersome or they might even be unable to determine these amounts retrospectively. In many cases, entities might not be able to retrospectively measure intangible assets acquired through a non-exchange transaction based on fair value as at the date of acquisition.</p>
<b>Fair presentation consideration:</b>	<p>Not applying IPSAS 31 retrospectively will not lead to fair presentation of an entity's financial position/performance at first-time adoption. As entities might not reclassify, recognize or derecognize, and remeasure all their existing intangible assets on a retrospective basis, fair presentation of an entity's first financial statements according to IPSASs will not be achieved.</p>
<b>Proposal for ED:</b>	<p>Because of the extensive requirements of IPSAS 31 which are reflected in the outline of issue section, and of the practical complexity/difficulty-criterion and based on the observation that entities which have previously recognized intangible assets might also not be able to apply IPSAS 31 retrospectively staff is of the view that the distinction between entities which have previously recognized intangible assets and those which have not might not be appropriate for transitional provisions for intangible assets at first time adoption of accrual basis IPSASs. Besides IPSAS 32 the distinction of whether an entity has previously recognized intangible assets or not is not used in other transitional provisions within the suite of IPSASs.</p> <p>In order to ensure that entities account properly for intangible assets which existed before the date of transition to IPSASs, staff proposes that for:</p> <ul style="list-style-type: none"> <li>(a) Internally generated intangible assets, and</li> <li>(b) Intangible assets separately acquired through an exchange transaction</li> </ul> <p>and where cost information for those intangible assets is available, entities should be required to apply IPSAS 31 retrospectively. For all other intangible assets, entities should merely be encouraged, but not required, to apply IPSAS 31 retrospectively. At the date of transition, an entity is required to recognize all intangible assets existing at that date according to IPSAS 31 and to measure them in accordance with the first-time adoption ED or IPSAS 31.</p>
<b>Basket:</b>	<p>Basket 2, as not applying IPSAS 31 retrospectively for <u>all</u> intangible assets which existed at the date of transition, might not lead to fair presentation of an entity's financial position/performance at first-time adoption.</p>

Accounting issue:	Initial measurement of intangible assets
<b>Outline of issue:</b>	<ul style="list-style-type: none"> <li>According to IPSAS 31.31 an entity is required to measure intangible assets acquired through an exchange transaction initially at cost. Following IPSAS 31.34 (b) the cost of a separately acquired intangible asset comprises (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and (b) any directly attributable cost of preparing the asset for its intended use. Para. 35 (a) of IPSAS 31 states that the costs of employee benefits (as defined in IPSAS 25) or professional fees arising directly from bringing the asset to its working condition are such examples for directly attributable costs.</li> <li>The initial cost of intangible assets acquired through a non-exchange transaction shall be measured at their fair value as at the date of acquisition.</li> </ul>
<b>Minimum information affected:</b>	Opening statement of financial position, statement of financial performance, statement of financial position and statement of changes in net assets/equity, comparison of budget and actual information (when the entity makes publicly available its approved budget), notes disclosures
Transitional Provisions in IPSAS:	Transitional Provisions in IFRS 1:
<p>IPSAS 31.130: For intangible items that meet:</p> <p>(a) The recognition criteria in this Standard (including reliable measurement of original cost); and</p> <p>(b) The criteria in this Standard for revaluation (including existence of an active market);</p> <p>an entity may elect to measure an intangible asset on the date of transition, at its fair value and use that fair value as its deemed cost at that date.</p> <p>IPSAS 31.131. An entity may elect to use a previous revaluation of an intangible asset at, or before, the date of transition as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:</p> <p>(a) Fair value; or</p> <p>(b) Cost or depreciated cost in accordance with IPSASs, adjusted to reflect, for example, changes in a general or specific price index.</p>	<p>IFRS 1.D7: The elections in paragraphs D5 and D6 are also available for:</p> <p>(a) investment property, if an entity elects to use the cost model in IAS 40 <i>Investment Property</i>; and</p> <p>(b) intangible assets that meet:</p> <p>(i) the recognition criteria in IAS 38 (including reliable measurement of original cost); and</p> <p>(ii) the criteria in IAS 38 for revaluation (including the existence of an active market).</p> <p>IFRS 1.D5: 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.</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> <p>(a) fair value; or</p> <p>(b) cost or depreciated cost in accordance with</p>

	IFRSs, adjusted to reflect, for example, changes in a general or specific price index.
<b>Aspect of the minimum information:</b>	Appropriate measurement of elements.
<b>Assessment based on the qualitative characteristics of, and constraints on, information:</b>	<p>Staff proposes to allow for a deemed cost approach by analogy to IFRS 1 for the initial measurement of intangible assets at first-time adoption of accrual basis IPSASs, except for (a) internally generated intangible assets, and (b) intangible assets separately acquired through an exchange transaction and where cost information for those intangible assets is available.</p> <p>Depending on an entity's operations an accurate measurement of intangible assets is <b>relevant</b> as it is capable of making a difference in achieving the objectives of financial reporting. An accurate measurement contributes to provide information useful for accountability purposes, to the ability of an entity to fulfill its service delivery objectives, etc. In addition, it has confirmatory value as well as predictive value (e.g. for the determination of future amortization)). Measurement of intangible assets based on fair value is able to provide such relevant information.</p> <p>Using fair value to measure intangible assets at first-time adoption will likely result in <b>faithful representation</b>. Allowing entities to use the deemed cost approach, might be an appropriate substitute for retrospective measurement of intangible assets (e.g. for entities previously applying the cash basis of accounting). Using fair value at the entity's date of transition to IPSASs as its deemed cost can be an appropriate alternative where cost information is not available. Having the option to use the deemed cost approach instead of retrospectively applying IPSAS 31 entities can use their own discretion about how to measure existing intangible assets on initial adoption.</p> <p>Fair value fulfills the qualitative characteristic of <b>understandability</b>. For entities which have not accounted for intangible assets under their previous basis of accounting (e.g. for entities previously applying the cash basis of accounting) retrospective measurement of intangible assets based on cost could be considerably cumbersome for entities. An option to use fair value as deemed cost for its intangible assets is therefore an appropriate substitute for retrospective measurement and may contribute to save <b>costs</b> for preparers. The possibility of a first-time adopter to use a previous GAAP revaluation of an item at, or before, the date of transition to IPSASs as deemed cost at the date of the revaluation (under certain conditions) contributes to save costs for preparers at first-time adoption as well.</p> <p>Staff proposes to also allow entities to measure intangible assets acquired through a non-exchange using the deemed cost approach. Measuring such intangible assets using the deemed cost approach is</p>

	more <b>relevant</b> and likely <b>less costly</b> than measuring it retrospectively at fair value <i>as at the date of acquisition to IPSASs</i> . This measurement approach is able to <b>faithfully represent</b> an entity's financial position at the first-time adoption of accrual basis IPSASs.
<b>Fair presentation consideration:</b>	The deemed cost approach allows for fair presentation of intangible assets at first-time adoption of accrual basis IPSASs.
<b>Practical complexity/difficulty:</b>	When entities implement accrual accounting in accordance with IPSASs for the first time, they often experience difficulties in compiling the required information for the measurement of assets at first-time adoption (e.g. for intangible assets that were acquired several years ago and directly attributable cost of preparing the asset for its intended use have occurred, to distinguish between research and development for internally generated intangible assets and measure them in accordance with IPSAS 31.63 et seq. or for intangible assets that were acquired in a non-exchange transaction). Especially entities applying previously the cash basis of accounting need to undertake considerable efforts to measure all their intangible assets retrospectively. For some intangible assets they might not even be able to measure those intangible assets (e.g. intangible assets acquired through a non-exchange transaction).
<b>Additional Issue:</b>	<p>According to IPSAS 31.130 an entity may elect to use the deemed cost approach only when the intangible items meet:</p> <ul style="list-style-type: none"> <li>(a) The recognition criteria in IPSAS 31 (including reliable measurement of original cost); and</li> <li>(b) The criteria in this Standard for revaluation (including existence of an active market).</li> </ul> <p>Staff is of the view that public sector entities will likely not be able to fulfill the second criteria, i.e. existence of an active market. In the public sector, it is uncommon for an active market to exist for an intangible asset. As a consequence the use of the deemed cost approach will likely be considerably restricted. Entities would not be able to apply the deemed cost approach for significant intangible assets, like IT systems developed in-house which likely have not an active market.</p> <p>Staff also doubts whether the reliable measurement of original cost should be required for entities which have previously applied the cash basis of accounting. Such entities might find it considerably cumbersome to identify original cost of their intangible assets. Also where an entity has previously applied the accrual basis of accounting and has acquired intangible assets through a non-exchange transaction might not be able to reliably measure original cost.</p> <p>Staff proposes that (a) reliable measurement of original cost, and (b) existence of an active market should be excluded as criterion for the application of the deemed cost approach at first-time adoption.</p>

<b>Proposal for ED:</b>	<ol style="list-style-type: none"> <li>1. Staff proposes that entities should be allowed to measure intangible assets at first-time adoption using the deemed cost approach, except for (a) internally generated intangible assets, and (b) intangible assets separately acquired through an exchange transaction and where cost information for those intangible assets is available.</li> <li>2. Entities should also be allowed to measure intangible assets that were acquired through a non-exchange transaction, using the deemed cost approach at first-time adoption.</li> <li>3. Staff proposes that (a) reliable measurement of original cost and (b) existence of an active market should be excluded as criterion for the application of the deemed cost approach at first-time adoption. Entities should have the possibility to apply the deemed cost approach when the intangible items meet: <ol style="list-style-type: none"> <li>(a) The recognition criteria in IPSAS 31 (excluding reliable measurement of original cost); and</li> <li>(b) The criteria in IPSAS 31 for revaluation (excluding existence of an active market).</li> </ol> </li> </ol>
<b>Basket:</b>	Basket 1, as the deemed cost approach allows for fair presentation of intangible assets in an entity's first IPSAS financial statements



**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** December 3-6, 2012

## Agenda Item 7.3

For:

☐ Approval

☒ Discussion

☐ Information

### ISSUES PAPER ON RECONCILIATION REQUIREMENTS AT FIRST- TIME ADOPTION OF ACCRUAL BASIS IPSASS

#### Objective of Issues Paper

1. This Issues Paper addresses two important and interrelated matters in the context of first-time adoption of accrual basis IPSASs:
  - (a) Reconciliation requirements
  - (b) Minimum information required in an entity's first IPSAS financial statements
2. The objective of this Issues Paper is to **provide**:
  - (a) An overview of the proposed reconciliation requirements at first-time adoption of accrual basis IPSASs (Significant Issue 1)
  - (b) A discussion about the proposed requirements for disclosure of narrative information about material adjustments in an entity's first IPSAS financial statements (Significant Issue 2)

for **review** and **discussion** by the IPSASB.

#### Action requested:

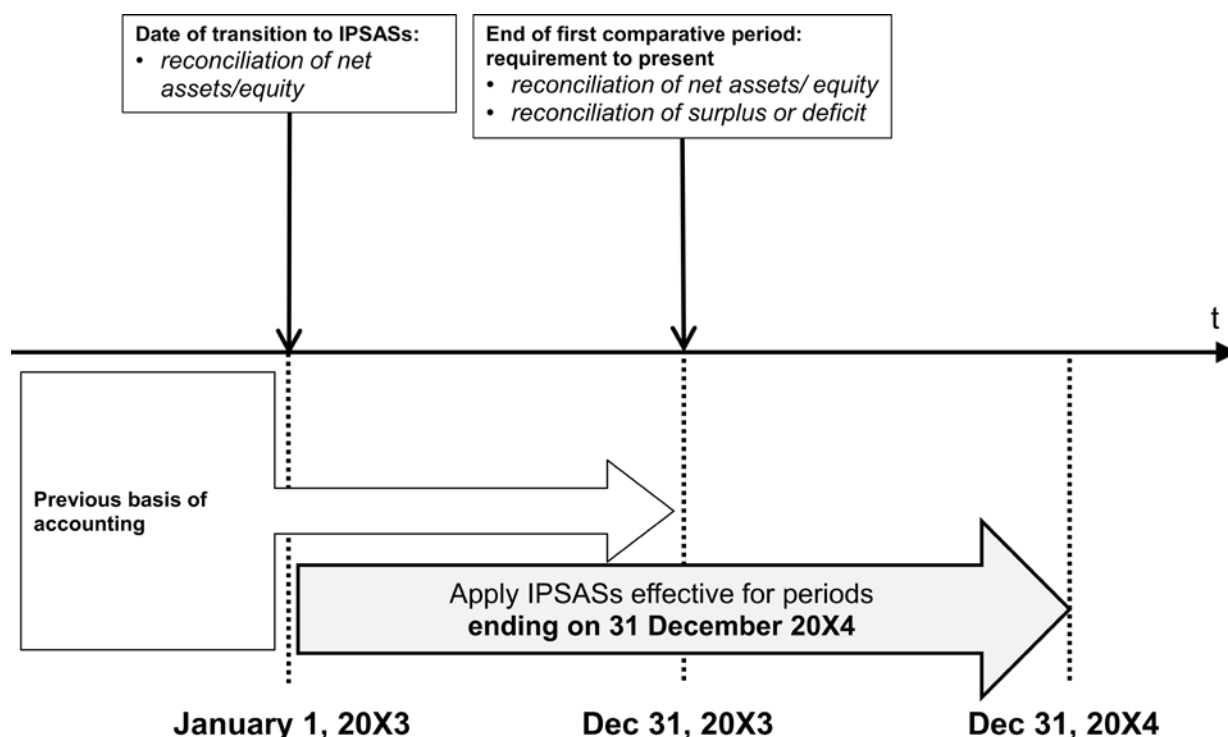
3. Members are asked to **discuss** the proposed reconciliation requirements at first-time adoption of accrual basis IPSASs.

## **Significant Issue 1: Reconciliation Requirements at First-Time Adoption**

### **Reconciliation Requirements in the Transition Period**

4. The IPSASB generally supported the view that notes of an entity's first IPSAS financial statements should comprise reconciliations that provide linkages with information previously presented by an entity. An entity should therefore be required to disclose information how the transition from its previous basis of accounting to IPSASs affected its reported financial position and, where appropriate, its financial performance and cash flows.
5. The requirements of IFRS 1 regarding reconciliations on first-time adoption of IFRS are rather comprehensive. According to IFRS 1.24 and 1.25 an entity's first IFRS financial statements shall include:
  - (a) Reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with IFRSs for both of the following dates:
    - (i) The date of transition to IFRSs; and
    - (ii) The end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.
  - (b) A reconciliation to its total comprehensive income in accordance with IFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
  - (c) An explanation of the material adjustments to the statement of cash flows, if the entity presented a statement of cash flows under its previous GAAP.
6. After clearance with the Task-based Group (TBG), staff is of the view that these requirements are too onerous for public sector entities. The following graph outlines the implications of applying the IFRS 1-reconciliations requirements under IPSASs:

Figure 1: Reconciliations Requirements For Public Sector Entities According to the IFRS 1-Approach



7. According to the IFRS 1-approach, which implies two comparative periods, an entity would be required to present reconciliations at two dates in the transition period:
  - (a) At the date of transition to IPSASs;
  - (b) At the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP, i.e. at the end of the first comparative period.
8. For the end of the first comparative period entities are required to reconcile:
  - (a) Their net assets/equity in accordance with previous GAAP to their net assets/equity in accordance with IPSASs;
  - (b) Their surplus or deficit in accordance with previous GAAP to their surplus or deficit in accordance with IPSASs.
9. As public sector entities are not required to present comparative information in its first IPSAS financial statements, and as a consequence not be required to have two comparative periods in their first IPSAS financial statements, the reconciliations requirements of IFRS 1 are seen as not appropriate for public sector entities.
10. Because of the encouragement to present comparative information in an entities first IPSAS financial statements, staff is of the view that entities should only be required to present a reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to their net assets/equity in accordance with IPSASs for the date of transition to IPSASs, i.e. the entities' net assets/equity in the opening IPSAS statement of financial position. This requirement should apply to

all entities except for entities applying the cash basis as its previous basis of accounting (for the exception for entities applying the cash basis as their previous basis of accounting see the separate section for those entities below).

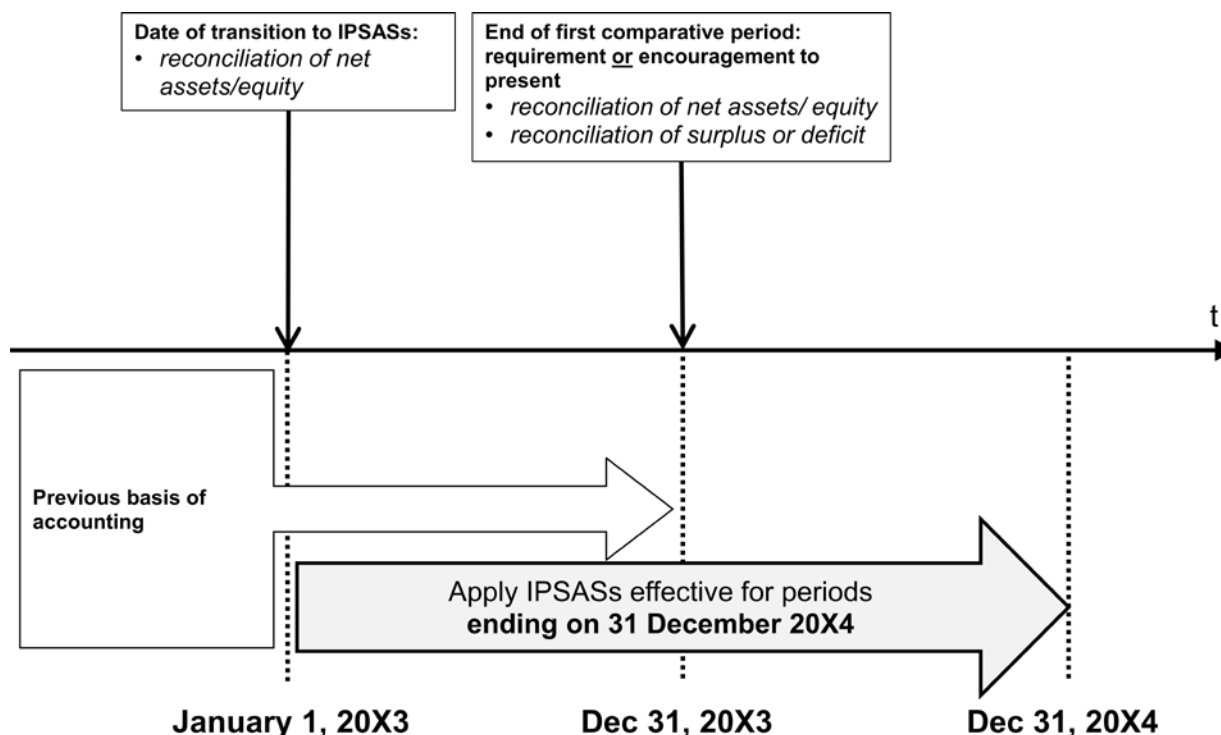
**Matter for Consideration**

4. The IPSASB is asked whether it agrees that entities should be required to present a reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs at the date of transition to IPSASs.

**Reconciliation Requirements where an Entity Elects to Present Comparative Information**

11. Under this scenario, the question is whether entities should be required (or encouraged) to prepare a reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs **for the end of the first comparative period** (IFRS 1 uses the phrase “for the end of the latest period presented in the entity’s most recent annual financial statements in accordance with previous GAAP” for this point in time).
12. Where an entity elects to present comparative information in its first IPSAS financial statements (which results in two comparative periods in an entity’s first IPSAS financial statements, see the Issues Paper for the June 2012 meeting, figure 1) and has published or publishes financial statements in accordance with its previous basis of accounting for the same period, staff is of the view that entities could either be (a) required, or (b) encouraged to present reconciliations **at the end of the first comparative period**.
13. The following graph outlines the proposed reconciliation requirements (or encouragements) where an entity elects to present comparative information and publishes financial statements in accordance with its previous basis of accounting.

Figure 2: Proposed Reconciliation Requirements (or Encouragements) Where an Entity Elects to Present Comparative Information and Publishes Financial Statements in Accordance with its Previous Basis of Accounting



14. As shown in figure 2, where an entity elects to present comparative information in its first IPSAS financial statements and has published or publishes annual financial statements in accordance with its previous basis of accounting for the same period the entity shall (or is encouraged to) present for **the end of the first comparative period**:
  - (a) Reconciliations of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs;
  - (b) Reconciliations of its surplus or deficit reported in accordance with its previous basis of accounting to its surplus or deficit in accordance with IPSASs.
15. Staff has identified the following advantages of requiring (or encouraging) entities to present reconciliations at the end of the entity's first comparative period:
  - (a) Users would be able to see reconciliations for net assets/equity as well as for surplus or deficit at the same time;
  - (b) Users could get a more complete picture about the effects of the changes in accounting policies on net assets/equity as well as on surplus or deficit than just having reconciliations of net assets/equity at the date of transition to IPSASs;
  - (c) With respect to net assets/equity users could compare two reconciliation statements.
  - (d) Entities are able to follow the IFRS 1-approach towards reconciliations.

16. Staff has drafted two alternative wordings for either that:
  - (a) An entity should be required to present such reconciliations; or
  - (b) An entity should merely be encouraged to present such reconciliations.
17. Staff is of the view that option (a) should be preferred. A requirement to present such reconciliations would ensure that where entities elect to present comparative information in its first IPSAS financial statements and has published or publishes annual financial statements in accordance with its previous basis of accounting for the same period that such entities would also provide reconciliations at the end of the first comparative period and make use of the outlined advantages which are in the interest of users.

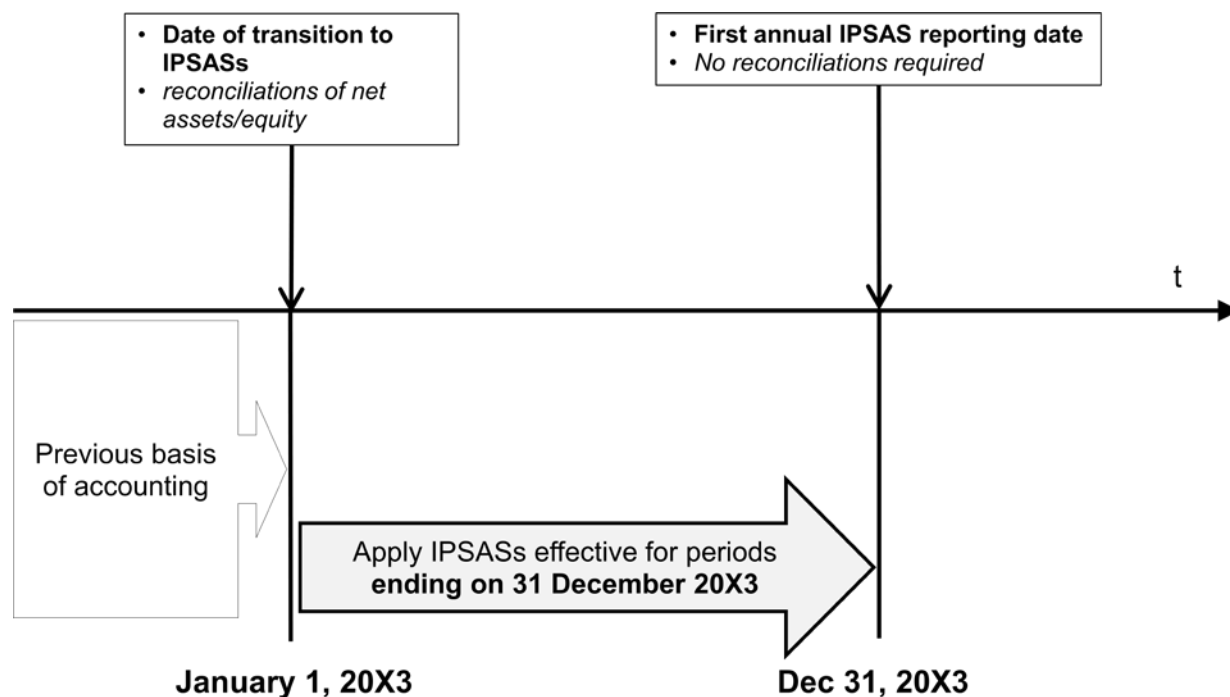
#### **Matters for Consideration**

5. The IPSASB is asked whether entities electing to present comparative information in its first IPSAS financial statements and have published or publish annual financial statements in accordance with its previous basis of accounting for the same period should:
  - (a) Be **required** to present reconciliations at the end of the first comparative period; or
  - (b) Be **encouraged** to present reconciliations at the end of the first comparative period; or
  - (c) **Neither be required nor encouraged** to present reconciliations at the end of the first comparative period.

#### **Additional Reconciliation Requirements Where an Entity Elects to not Present Comparative Information?**

18. Where an entity elects to not present comparative information (which results in a one year transition period and comparative information solely for the statement of financial position, see the Issues Paper for the June 2012 meeting, figure 2) and the entity has published or publishes annual financial statements in accordance with its previous basis of accounting for the same period, the question is, whether an entity should be required (or encouraged) to present a reconciliation of its net assets/equity or surplus or deficit reported in accordance with its previous basis of accounting to its net assets/equity or surplus or deficit in accordance with IPSASs **at the end of the transition period**, i.e. for the first annual IPSAS reporting date.
19. Staff is of the view, that, irrespective of the basis of accounting, entities should neither be encouraged nor be required to present a reconciliation of its net assets/equity or surplus or deficit reported in accordance with its previous basis of accounting to its net assets/equity or surplus or deficit in accordance with IPSASs for the first annual IPSAS reporting date. Staff considers such a requirement (encouragement) as too onerous for entities. The approach where entities are able to elect to not present comparative information should provide as less requirements (encouragements) as possible.
20. The following graph summarizes the proposed reconciliation requirements where an entity elects to not present comparative information.

Figure 3: Proposed Reconciliation Requirements Where an Entity Elects to not Present Comparative Information



#### Matter for Consideration

6. The IPSASB is asked whether it agrees with staff's view that where an entity does not elect to present comparative information entities should neither be required nor encouraged to present reconciliations **at the first annual IPSAS reporting date**.

#### Reconciliation Requirements for Entities Applying the Cash Basis as its Previous Basis of Accounting

The question here is whether entities applying the cash basis of accounting as their previous basis of accounting should be required to present reconciliations of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs for the date of transition to IPSASs. As under the cash basis of accounting there is no net assets/equity balance, only the cash balance, such a reconciliation does not provide useful information to users. Most of that information is provided by an entity's opening statement of financial position. A requirement to present such a reconciliation at first-time adoption is therefore not appropriate. As a consequence, staff is of the view that entities applying the cash basis of accounting as its previous basis of accounting should not be required to prepare reconciliations at first-time adoption at all.

**Matter for Consideration**

7. The IPSASB is asked whether it agrees that entities applying the cash basis of accounting as their previous basis of accounting should not be required to present reconciliations at first-time adoption.

**Terminology Relating to First-time Adoption of Accrual Basis IPSASs**

21. Because of the complex IFRS 1 definition for the second date in figure 1 (“the end of the latest period presented in the entity’s most recent annual financial statements in accordance with previous GAAP”) staff decided to use the phrase “the end of the first comparative period” instead.



**Proposed Wording for the Reconciliation Requirements in the ED on First-Time Adoption of Accrual Basis IPSASs (required disclosure):**

57. An entity shall disclose information about how the transition from its previous basis of accounting to IPSASs affected its reported financial position and, where appropriate, its reported financial performance and cash flows.
58. To comply with paragraph 57, an entity's first IPSAS financial statements shall include in the notes a reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs for the date of transition to IPSASs. Entities applying the cash basis of accounting in its previous financial statements are not required to present such reconciliations.
59. Where an entity elects to present comparative information in its first IPSAS financial statements and the entity publishes or has published annual financial statements in accordance with its previous basis of accounting for the same period, the entity shall present for the end of the first comparative period:
- (i) Reconciliations of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs
  - (ii) Reconciliations of its surplus or deficit in accordance with its previous basis of accounting to its surplus or deficit in accordance with IPSASs.

Entities applying the cash basis of accounting in its previous financial statements are not required to present such reconciliations in its first IPSAS financial statements.

*or alternatively:*

**Proposed Wording for the Reconciliation Requirements in the ED on First-Time Adoption of Accrual Basis IPSASs (encouraged disclosure):**

59. Where an entity elects to present comparative information in its first IPSAS financial statements and the entity publishes or has published annual financial statements in accordance with its previous basis of accounting for the same period, the entity is encouraged to present for the end of the first comparative period:
- (i) Reconciliations of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs
  - (ii) Reconciliations of its surplus or deficit in accordance with its previous basis of accounting to its surplus or deficit in accordance with IPSASs.

Entities applying the cash basis of accounting in its previous financial statements are not required to present such reconciliations in its first IPSAS financial statements.

**Matter for Consideration**

8. The IPSASB is asked whether it agrees with the proposed wording for the reconciliation requirements in the ED on first-time adoption of accrual basis IPSASs.

## **Significant Issue 2: Requirements for Disclosure of Narrative Information about Material Adjustments in an Entity's First IPSAS Financial Statements**

22. According to IFRS 1.25 an entity is required to disclose narrative information about the material adjustments to the statement of financial position and, where applicable, to the statement of financial performance and the cash flow statement.
23. Comments received during the out-of-session review of an Issues Paper on a "Set of Criteria for the Development of Transitional Provisions at First-Time Adoption of Accrual Basis IPSASs and Selected Examples" suggested that narrative information on how the adoption of IPSASs affected an entity's statement of financial position and, where applicable, the statement of financial performance and the cash flow statement should be addressed in the project on Financial Statement Discussion and Analysis (FSDA). Requirements to present reconciliation statements were seen as sufficient in the First-time Adoption ED to tell users how an entity has moved from its previous basis of accounting to accrual basis IPSASs.
24. In the out-of-session review of the Issues Paper "Set of Criteria for the Development of Transitional Provisions at First-Time Adoption of Accrual Basis IPSASs and Selected Examples" and in the September 2012 meeting the IPSASB considered the required minimum information in an entity's first IPSAS financial statements. Staff has envisaged that at that stage of the project an entity is not required to present FSDA in conjunction with its first IPSAS financial statements. As the IPSASB tentatively agreed in its September 2012 meeting to continue to develop the FSDA ED into an IPSAS, an entity could be required to present FSDA in conjunction with its first IPSAS financial statements depending on whether or not the IPSASB provides relief at first-time adoption.
25. Staff assumes that the IPSASB intends to have a requirement to disclose narrative information about the material adjustments to the statement of financial position and, where applicable, to the statement of financial performance and the cash flow statement within the suite of IPSASs. Therefore, the IPSASB's decision on FSDA might have an influence on whether narrative information about the material adjustments to the financial statements:
  - (a) Shall be part of FSDA, or
  - (b) Shall be disclosed in the notes (likely by a requirement within the First-Time Adoption ED).
26. As long as the IPSASB has not decided whether FSDA is going to be an IPSAS or RPG, staff is of the view that a requirement to disclose narrative information about the material adjustments to the financial statements in the notes should be incorporated in the ED on First-time Adoption. As an alternative to disclosure in the notes, entities should be allowed to present such narrative information in a report published at the same time as the first IPSAS financial statements. Please note that the approach taken here is similar to the approach taken in IPSAS 24.14(c) for the explanation of material differences between budget and actual amounts as well as for the disclosure of the nature and extent of risks arising from financial instruments in IPSAS 30 (cf. IPSAS 30.AG6). Staff has therefore drafted paragraph 59 accordingly.

**Matters for Consideration**

9. The IPSASB is asked:
- (a) Whether the ED on First-time Adoption of Accrual Basis IPSAS should contain a requirement to disclose narrative information about the material adjustments to the financial statements in the notes, and
  - (b) If the IPSASB agrees with such a requirement in the ED, whether, as an alternative, entities should be allowed to present such narrative information in a report published at the same time as the first IPSAS financial statements.

**Proposed Wording for the Requirement to Disclose Narrative Information about the Material Adjustments to the Statement of Financial Position and, Where Applicable, to the Statement of Financial Performance and the Cash Flow Statement:**

60. By way of note disclosure, the reconciliations required by paragraph 58 and [encouraged by paragraph] 59 shall give sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the statement of financial position and, where applicable, the statement of financial performance, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes. If an entity presented a statement of cash flows, a statement of cash receipts and payments or a similar statement on the cash basis under its previous basis of accounting, by way of note disclosure it shall also explain the material adjustments to the statement of cash flows, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

**Matter for Consideration**

10. The IPSASB is asked whether it agrees with the proposed wording for the requirement to disclose narrative information about the material adjustments to the statement of financial position and, where applicable, to the statement of financial performance and the cash flow statement in the ED on first-time adoption of accrual basis IPSASs.

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** December 3-6, 2012

## Agenda Item 7.4

For:

☐ Approval

☒ Discussion

☐ Information

### DRAFT EXPOSURE DRAFT, FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

#### Objective of Issues Paper

1. The objective of this draft Exposure Draft is to **provide**:
  - (a) An overview of the proposed requirements and encouragements at first-time adoption of accrual basis IPSASs;
  - (b) A first set of transitional provisions based on the decisions reached at the September 2012 meeting
 for **review** and **discussion** by the IPSASB.

#### Action requested:

2. Members are asked to **review** and **discuss** the proposed IPSAS.

## **PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD XX**

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

*Please note that this version of the ED is based on the decisions reached at the September 2012 meeting.*

#### **Objective**

1. The objective of this International Public Sector Standard (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 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 that prepares and presents financial statements under the accrual basis of accounting 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 accrual basis IPSAS financial statements if, for example, the entity:
  - (a) Prepared its most recent previous financial statements in accordance with the IPSAS, *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.
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”) are 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.

#### **Previous Basis of Accounting**

10. 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 the cash basis of accounting recognizes transactions and other events 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, is characterized by the fact that some but not all transactions and other events are accounted for according to the accrual basis of accounting. A modified version of the accrual basis of accounting is characterized by the fact that not all of the assets or liabilities of an entity are recognized in its statement of financial position, or only some of the revenues or expenses are recognized using the accrual basis of accounting in its statement of financial performance.

## **Deemed Cost**

11. Deemed cost is a measurement basis for an asset, which is a substitute for acquisition 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 acquisition cost is equal to the deemed cost. For example, an entity may elect to measure an item of property, plant and equipment at deemed cost at the date of its transition to IPSAS and use 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 considered a revaluation or the application of the fair value model for subsequent measurement in accordance with other IPSASs.

## **Recognition and Measurement**

### **Opening IPSAS Statement of Financial Position**

12. An entity shall prepare and present an opening IPSAS statement of financial position at the date of transition to IPSASs.

### **Accounting Policies**

13. On the first-time adoption of IPSASs, an entity shall apply the effects of the Standards retrospectively, except, if required, or otherwise permitted, in this Standard.
14. An entity's first IPSAS financial statements shall fairly present the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs including this IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation. Applying the exemptions in paragraphs 27 to 50 may affect the fair presentation of an entity's financial statements for the period they are used.
15. The exemptions in paragraphs 27 to 50 provide relief in those areas where the initial application of the principles in a Standard may be complex or difficult to apply. An entity may voluntarily adopt these exemptions, but should consider that applying these exemptions may affect the fair presentation of its financial statements while they are applied. Before making use of such exemptions, entities should consider all the relevant and available facts and circumstances. Applying these exemptions does not affect an entity's ability to assert compliance with IPSASs in accordance with paragraph 16.
16. An entity shall 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.
17. 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 21-54.**

18. 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.
19. Except as described in paragraphs 21-50, 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.
20. 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**

21. This IPSAS prohibits retrospective application of some aspects of other IPSASs. These exceptions are set out in paragraphs 22-24.

#### *Estimates*

22. **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.**
23. 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*.
24. 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 judgment at the date of transition to IPSASs.
25. Paragraphs 22-24 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.

### **Exemptions from Other IPSASs**

- 26. An entity may be required or elect to use one or more of the exemptions contained in paragraphs 27-50. An entity shall not apply these exemptions by analogy to other items.**

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

- 27. On the initial adoption of IPSAS 4 an entity need not apply the following requirements related to foreign operations retrospectively:**
- (a) To classify such 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.**
- 28. 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.**

#### *IPSAS 5, Borrowing Costs*

- 29. An entity is not required to apply the requirements of IPSAS 5 retrospectively.**
- 30. Where an entity adopts, or changes its accounting policy, to the allowed alternative treatment for borrowing costs, the entity is alternatively allowed to designate any date before the date of transition and apply IPSAS 5 prospectively to those qualifying assets for which the commencement date for capitalisation is on or after that designated date.**
- 31. Where an entity adopts, or changes its accounting policy, to the benchmark treatment the entity is alternatively allowed to designate any date before the date of transition and apply IPSAS 5 prospectively on or after that designated date.**
- 32. Where an entity adopts, or changes its accounting policy, to the allowed alternative treatment for borrowing costs, the entity is permitted to apply the requirements of IPSAS 5 prospectively to qualifying assets.**
- 33. Where an entity applies one of the transitional provisions provided in paragraphs 29 to 32, the entity shall disclose the accounting policy adopted for borrowing costs before and after the date of transition to IPSASs.**

#### *IPSAS 6, Consolidated and Separate Financial Statements*

- 34. Entities are not required to eliminate balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the**

date of transition to IPSASs. This transitional provision may affect the fair presentation of an entity's IPSAS financial statements for the period it is applied.

35. Where entities apply the transitional provision in paragraph 34, they shall disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.
36. Where an entity measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it is allowed to 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.

#### *IPSAS 8, Joint Ventures*

37. Where the proportionate consolidation treatment set out in IPSAS 8 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 transition to IPSASs. This transitional provision may affect the fair presentation of an entity's IPSAS financial statements for the period it is applied.
38. Where entities apply the transitional provision in paragraph 37 of this Standard, they shall disclose the fact that not all inter-entity balances and transactions have been eliminated.
39. Jointly controlled assets and liabilities shall be accounted for in accordance with this IPSAS. Entities are allowed to make use of the transitional provisions of this IPSAS on first-time adoption of accrual basis IPSASs also for jointly controlled assets and liabilities.

#### *IPSAS 12, Inventories*

40. An entity may elect to measure:
- (a) Inventories acquired through an exchange transaction where no cost information is available;
  - (b) Inventories acquired through a non-exchange transaction;
  - (c) Inventories held for:
    - (i) Distribution at no charge or for a nominal charge; or
    - (ii) Consumption in the production process of goods to be distributed at no charge or for a nominal charge

**at the date of transition to IPSASs at their fair value and use that fair value as its deemed cost at that date.**

41. A first-time adopter may elect to use a previous basis of accounting revaluation of inventories 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.

*IPSAS 16, Investment Property*

42. **Entities are not required to recognize investment property beginning on a date within five years following the date of transition to IPSASs.**
43. **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. This transitional provision may affect the fair presentation of an entity's IPSAS financial statements for the period it is applied.**
44. **When an entity takes advantage of the transitional provisions in paragraphs 42 and 43, that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 42 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.**
45. The elections in paragraph 41 are also available for investment property.

*IPSAS 17, Property, Plant and Equipment*

46. **Entities are not required to recognize property, plant, and equipment beginning on a date within five years following the date of transition to IPSASs. This transitional provision may affect the fair presentation of an entity's IPSAS financial statements for the period it is applied.**
47. **An entity may elect to measure an item of property, plant and equipment at the date of transition to IPSASs at its fair value in accordance with IPSAS 17 and use that fair value as its deemed cost at that date.**
48. **The disclosure requirements of paragraph 44 also apply to entities which takes advantage of the transitional provisions in paragraphs 46 and 47.**
49. The elections in paragraph 41 are also available for property, plant and equipment.

*IPSAS 18, Segment Reporting*

50. **Entities are not required to report financial information by segments beginning on a date within three years following the date of transition to IPSASs.**

## **Presentation and Disclosure**

51. This IPSAS does not provide exemptions from the presentation and disclosure requirements in other IPSASs, except as specified in paragraphs 52-54.

### **Comparative Information**

52. **An entity is encouraged but not required to present comparative information in its first IPSAS financial statements.**
53. **Where an entity elects 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) Related notes, including comparative information and the reconciliation required by paragraph 58 and [encouraged by] 59.**
54. **Where an entity elects to not present comparative information, its first IPSAS financial statements shall include, as a minimum requirement:**
- (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) Related notes, including the reconciliation required by paragraph 58.**

### *Non-IPSAS Comparative Information*

55. Entities may present comparative information in accordance with its previous basis of accounting. In any financial statements containing comparative information in accordance with the previous basis of accounting, an entity shall label the information prepared using the previous basis of accounting information as not being prepared in accordance with IPSASs.

### *Non-IPSAS Historical Summaries*

56. 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 label the previous basis of accounting information prominently as not being prepared in accordance with IPSASs; and

## **Explanation of Transition to IPSASs**

- 57. An entity shall disclose information about how the transition from the previous basis of accounting to IPSASs affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.**

### *Reconciliations*

- 58. To comply with paragraph 57, an entity's first IPSAS financial statements shall include in the notes a reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs at the date of transition to IPSASs. Entities applying the cash basis of accounting in its previous financial statements are not required to present such reconciliations.**
- 59. Where an entity elects to present comparative information in its first IPSAS financial statements and the entity publishes or has published annual financial statements in accordance with its previous basis of accounting for the same period, the entity shall present for the end of the first comparative period:**
- (a) Reconciliations of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs; and**
  - (b) Reconciliations of its surplus or deficit in accordance with its previous basis of accounting to its surplus or deficit in accordance with IPSASs.**

**Entities applying the cash basis of accounting in its previous financial statements are not required to present such reconciliations in its first IPSAS financial statements.**

### *Proposed wording for para. 59 where entities are merely encouraged to present reconciliations:*

- 59. Where an entity elects to present comparative information in its first IPSAS financial statements and the entity publishes or has published annual financial statements in accordance with its previous basis of accounting for the same period, the entity is encouraged to present for the end of the first comparative period:**
- (a) Reconciliations of its net assets/equity reported in accordance with its previous basis of accounting to its net assets/equity in accordance with IPSASs**
  - (b) Reconciliations of its surplus or deficit in accordance with its previous basis of accounting to its surplus or deficit in accordance with IPSASs.**

**Entities applying the cash basis of accounting in its previous financial statements are not required to present such reconciliations in its first IPSAS financial statements.**

- 60. By way of note disclosure, the reconciliations required by paragraph 58 and [encouraged by paragraph] 59 shall give sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the statement of financial position and, where applicable, the statement of financial performance. Where narrative explanations are included in other public documents issued in conjunction with the financial statements, a cross reference to those documents is included in the notes. If an entity presented a statement of cash flows, a statement of cash receipts and payments or a similar statement on the cash basis under its previous basis of accounting, by way of note disclosure it shall also explain the material adjustments to the statement**

of cash flows, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is included in the notes.

61. If an entity becomes aware of errors made under the previous basis of accounting, the reconciliations required by paragraph 58 and [encouraged by] 59 shall distinguish the correction of those errors from changes in accounting policies.
62. 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.
63. If an entity did not present financial statements for previous periods, its first IPSAS financial statements shall disclose that fact.

*Disclosures Where Deemed Cost is used for Inventories, Investment Property or Property, Plant and Equipment*

64. If an entity uses fair value in its opening IPSAS statement of financial position as deemed cost for inventories, investment property or property, plant and equipment, 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 Where Deemed Cost is used for Investments in Controlled Entities, Jointly Controlled Entities and Associates*

65. 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 36), 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 elects to presents comparative information in its first IPSAS financial statements in accordance with paragraph 52 and 53 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 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) 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 not present comparative information in accordance with paragraph 52 and 54, 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 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 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 22 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 23, 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.

...