

Meeting International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 17–20, 2013

Agenda Item 6

For:

☐ Approval

☒ Discussion

☐ Information

FIRST TIME ADOPTION OF ACCRUAL BASIS IPSASs

Objective(s) of Agenda Item

1. The objective of this session is to:
 - (a) **Discuss** and **provide feedback** on the assessment of, and proposals for, the transitional accounting issues for IPSAS 28 *Financial Instruments: Presentation*, IPSAS 29 *Financial Instruments: Recognition and Measurement* and IPSAS 30 *Financial Instruments: Disclosure*;
 - (b) **Discuss** and **provide preliminary views** on the issues arising out of the development of ED XX, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*; and
 - (c) **Discuss** and **provide feedback** on the proposed ED XX, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* including the implementation guidance.

Material(s) Presented

- Agenda Item 6.1 Assessment of proposed transitional accounting issues for IPSAS 28 *Financial Instruments: Presentation*, IPSAS 29 *Financial Instruments: Recognition and Measurement* and IPSAS 30 *Financial Instruments: Disclosure*
- Agenda Item 6.2 Issues Paper
- Agenda Item 6.3 Proposed ED XX *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*

Action(s) Requested

2. The IPSASB is asked to **review** and **discuss** the:
 - (a) assessment and proposals for the transitional accounting issues for IPSAS 28, IPSAS 29 and IPSAS 30;
 - (b) matters for consideration in Agenda Paper 6.2; and
 - (c) proposed ED XX *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*

Assessment of Transitional Accounting Issues

1. At the last IPSASB meeting held in Abu Dhabi, the IPSASB considered an assessment of transitional accounting issues for:
 - (a) *IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)*
 - (b) *IPSAS 25, Employee Benefits*
 - (c) *IPSAS 32, Service Concession Arrangements*
2. It was indicated that staff will assess and propose the transitional provisions for the following IPSASs at the June 2013 IPSASB meeting:
 - (a) *IPSAS 28, Financial Instruments: Presentation*
 - (b) *IPSAS 29, Financial Instruments: Recognition and Measurement*
 - (c) *IPSAS 30, Financial Instruments: Disclosure.*
3. The assessment of the proposed transitional provisions for IPSASs 28–30 is included in this Agenda Paper for consideration by IPSASB members.

Action requested:**Matter for Consideration**

1. Board members are asked to **discuss** and **provide feedback** on the assessment of, and the proposals for, the transitional accounting issues for IPSASs 28–30.

ASSESSMENT AND PROPOSAL FOR THE TRANSITIONAL ACCOUNTING ISSUES FOR IPSAS 28, IPSAS 29 AND IPSAS 30

Assessment of Transitional Accounting issues for IPSAS 28, *Financial Instruments: Presentation*

Accounting issue:	Retrospective presentation of financial instruments at first-time adoption	
Outline of issue:	<ul style="list-style-type: none"> IPSAS 28.33 requires the issuer of a financial instrument to classify the instrument, or its component parts, as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. The issuer of a non-derivative financial instrument must evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net assets/equity component. Such components should be classified separately. Staff has considered to what extent it is feasible to evaluate compound financial instruments on the first time adoption of IPSASs. 	
Minimum information affected:	Opening statement of financial position, 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 28.56: An entity shall apply this Standard retrospectively on first time application.</p> <p>IPSAS 28.57: When an entity that previously applied IPSAS 15 <i>Financial Instruments: Disclosure and Presentation</i>, applies the requirements relating to puttable instruments and instruments or components of instruments that impose on the entity, an obligation to deliver to another party a pro rata share of net assets of the entity only on liquidation, an entity is required to split a compound financial instrument with an obligation to deliver to another party a pro rata share of the net assets the entity only on liquidation, into a liability and net assets/equity component. If the liability component is no longer outstanding, a retrospective application of these requirements would involve separating two components of net assets/equity. The first component would be in accumulated surplus and</p>		<p>IFRS 1.D18: IAS 32 <i>Financial Instruments: Presentation</i> requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this IFRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to IFRSs.</p>

<p>deficit and represent the cumulative interest accreted on the liability component. The other component would represent the original net assets/equity component. Therefore an entity need not separate these two components if the liability component is no longer outstanding when the Standard is adopted.</p> <p>IPSAS 28.58: An entity that either previously did not apply IPSAS 15 or adopts accrual accounting for the first time, applies the transitional provision in paragraph 57 to all compound financial instruments.</p>	
<p>Aspect of the minimum information:</p>	<p>Appropriate presentation of compound financial instruments.</p>
<p>Assessment based on the qualitative characteristics of, and constraints on, information:</p>	<p><i>Separating a compound financial instrument into its equity and liability component on the date of transition</i></p> <p>In terms of IPSAS 28, compound financial instruments should be separated into their component parts. Compound financial instruments with an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, should be separated into two components of net assets/equity, unless the liability component is no longer outstanding at the date of transition to accrual IPSASs. Separating a compound financial instrument would be relevant and will result in fair presentation. Requiring the split of a compound financial instruments with an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, is a matter of relevance as it is capable of making a difference in achieving the objectives of financial reporting. Not requiring the separation might not result in a faithful representation of the financial position/performance and net assets/equity of an entity.</p> <p><i>Separating a compound financial instrument where the liability component is no longer outstanding on date of transition</i></p> <p>Requiring entities to separate compound financial instruments into two components would be costly where the liability component of the compound instrument is no longer outstanding at the date of transition to accrual IPSASs. If the liability is no longer outstanding at the date of transition to IPSAS, an entity would be required to make two adjustments to net assets/equity. The first adjustment is to accumulated surplus and deficit and represents the cumulative interest accreted on the liability component. The other adjustment represents the original equity component. Not separating these two adjustments is unlikely to affect relevance and faithful representation as only net assets/equity is affected.</p>

<p>Fair presentation consideration:</p>	<p><i>Separating a compound financial instrument into its equity and liability component on the date of transition</i></p> <p>Not separating a compound financial instrument into its equity and liability component on the date of transition will result in the financial position/performance and net assets/equity of an entity not being a fair presentation. The financial position/performance and net assets/equity will only fairly present when the component of the financial instrument that (a) creates a financial liability of the entity and (b) grants an option to the holder of the instrument to convert into an equity instrument of the entity, are recognized separately.</p> <p><i>Separating a compound financial instrument where the liability component is no longer outstanding on date of transition</i></p> <p>Not separating the instruments into its two components, i.e. accumulated surplus and deficit, representing the cumulative interest accreted on the liability component, and the original net asset/equity component, should not affect relevance of fair presentation as the financial instrument would be classified as net assets/equity in the statement of changes of net assets/equity. Only net assets/equity will be affected.</p>
<p>Practical complexity/difficulty:</p>	<p>Separating compound financial instruments retrospectively, i.e. based on conditions that existed when the instrument was entered into, may be costly. Compound financial instruments are however not that common in the public sector and, as a result, this is likely to be limited to few entities.</p>
<p>Proposal for ED:</p>	<p>The transitional provisions in IPSAS 28 and IFRS 1 are similar. Staff is of the view that these transitional provisions would be relevant on the first time adoption of IPSASs, even though these types of instruments do not occur frequently. The wording in IFRS 1 is broader and deals with compound instruments generally, and is easier to understand. Staff therefore proposes using the following transitional provisions in the Exposure Draft dealing with first time adoption of IPSASs:</p> <ul style="list-style-type: none"> (a) Retrospective application of the presentation requirements for financial instruments; (b) Retrospective application is required in separating compound financial instruments into a liability component and a net assets/equity component where the liability is outstanding on adoption. (c) A first time adopter need not separate a compound financial instrument into a liability component and a net assets/equity component if the liability component is no longer outstanding at the date of transition.

Basket:	Basket 1: Not requiring the separation of a compound financial instrument into a liability component and a net assets/equity component if the liability component is no longer outstanding at the date of transition will not affect fair presentation as the financial instrument is appropriately accounted for.
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Assessment of Transitional Accounting issues for IPSAS 29, *Financial Instruments: Recognition and Measurement*

Accounting issue:	Retrospective recognition and measurement of financial instruments at first-time adoption
Outline of issue:	<p>General</p> <ul style="list-style-type: none"> IPSAS 29 requires an entity to apply the requirements in the Standard retrospectively by adjusting the opening balance of accumulated surplus or deficit for the earliest period presented as if the IPSAS had always been applied. This is also applicable to other comparative information. <p>Recognition and measurement of financial asset and financial liabilities</p> <ul style="list-style-type: none"> IPSAS 29 establishes principles for recognizing and measuring financial assets and financial liabilities. IPSAS 29 requires an entity to recognize a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. A financial asset will be derecognized when the contractual rights to the cash flows from the financial asset expire or are waived or if the entity transfers the financial asset under certain conditions. <p><i>Issue 1: Should an entity be required to recognize all financial instruments on the date of adoption of adopting IPSASs?</i></p> <ul style="list-style-type: none"> On initial recognition, a financial asset or a financial liability is recognized at its fair value plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition of or issue of the financial asset or financial liability. <p><i>Issue 2: Will entities be able to measure financial instruments based on their historical fair value?</i></p> <ul style="list-style-type: none"> After initial recognition, the entity should classify financial instruments into a specific category and all financial assets, except those measured at fair value through surplus or deficit, are subject to review for impairment. After initial recognition, the entity may not reclassify any financial instrument into the fair value through surplus or deficit category. <p><i>Issue 3: When should entities classify financial instruments –</i></p>

	<p><i>based on historical facts and circumstances or based on those that exist when it adopts IPSASs?</i></p> <ul style="list-style-type: none"> IPSAS 29 does however indicate that if the retrospective application is impracticable, an entity should disclose the fact and indicate the extent to which the information was restated. <p>Derecognition</p> <ul style="list-style-type: none"> IPSAS 29 requires financial instruments to be derecognized when certain circumstances exist or criteria are met. Where complex financial instruments have been entered into, these requirements can be onerous. <p><i>Issue 4: How should an entity deal with the those financial instruments that have been derecognized in the past but did not meet the criteria for derecognition in IPSAS 29 and, how should those instruments that are recognized at the date of adoption be accounted for?</i></p> <p>Hedges and non-financial assets and non-financial liabilities</p> <ul style="list-style-type: none"> IPSAS 29 describes various types of hedges: cash flows hedges, fair value hedges and hedges of a net investment in a foreign operation. Rigorous criteria exist for when hedge accounting can be applied by entities. The accounting treatment for gains and losses differs between the types of hedges. <p><i>Issue 5: What should an entity do when it has applied hedge accounting in previous periods, and how can instruments be designated as hedges on the adoption of IPSASs?</i></p>
<p>Minimum information affected:</p>	<p>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), note disclosures.</p>
<p>Transitional Provisions in IPSAS:</p>	<p>Transitional Provisions in IFRS 1:</p>
<p>General</p> <p>IPSAS 29. 114: An entity shall apply IPSAS 29 retrospectively except as specified in paragraphs 115–123. The opening balance of accumulated surplus or deficit for the earliest prior period presented and all other comparative amounts shall be adjusted as if this Standard had always been in use unless restating the information</p>	<p>General</p> <p>The requirements of IAS 39 are applied retrospectively, except for the derecognition and hedging requirements outlined below.</p>

<p>would be impracticable. If restatement is impracticable, the entity shall disclose that fact and indicate the extent to which the information was restated.</p>	
<p>Designation of previously recognized financial instruments</p> <p>IPSAS 29.115: When IPSAS 29 is first applied, an entity is permitted to designate a financial asset, including those that may have been recognized previously, as available for sale. For any such financial asset the entity shall recognize all cumulative changes in fair value in a separate component of net assets/equity until subsequent derecognition or impairment, when the entity shall transfer that cumulative gain or loss to surplus or deficit. For financial assets that were previously recognized, the entity shall also:</p> <ul style="list-style-type: none"> (a) Restate the financial asset using the new designation in the comparative financial statements; and (b) Disclose the fair value of the financial assets at the date of designation and their classification and carrying amount in the previous financial statements. <p>IPSAS 29.116: Where IPSAS 29 is first applied, an entity is permitted to designate a financial asset or a financial liability, including those that may have been recognized previously, at fair value through surplus or deficit that meet the criteria for designation in paragraphs 10, 13, 14, 15, 51, AG7–AG16, AG47, and AG48. Where an entity previously recognized financial assets and financial liabilities, the following apply:</p> <ul style="list-style-type: none"> (a) Notwithstanding paragraph 111, any financial assets and financial liabilities designated as at fair value through surplus or deficit in accordance with this subparagraph that were previously designated as the hedged item in fair value hedge accounting relationships shall be de-designated from those relationships at the same time they are designated as at fair value through surplus or deficit. 	<p>Designation of previously recognized financial instruments</p> <p>IFRS 1.29: An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss in accordance with paragraph D19. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.</p> <p>IFRS 1.D19: IAS 39 permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provide it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:</p> <ul style="list-style-type: none"> (a) An entity is permitted to make an available-for-sale designation at the date of transition to IFRSs. (b) An entity is permitted to designate, at the date of transition to IFRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), (9)(b)(ii) or 11A of IAS 39 at that date.

<p>(b) Shall disclose the fair value of any financial assets or financial liabilities designated in accordance with subparagraph (a) at the date of designation and their classification and carrying amount in the previous financial statements.</p> <p>(c) Shall de-designate any financial asset or financial liability previously designated as at fair value through surplus or deficit if it does not qualify for such designation in accordance with those paragraphs. When a financial asset or financial liability will be measured at amortized cost after de-designation, the date of dedesignation is deemed to be its date of initial recognition.</p> <p>(d) Shall disclose the fair value of any financial assets or financial liabilities de-designated in accordance with subparagraph (c) at the date of de-designation and their new classifications.</p> <p>IPSAS 29.117: An entity shall restate its comparative financial statements using the new designations in paragraph 116 provided that, in the case of a financial asset, financial liability, or group of financial assets, financial liabilities or both, designated as at fair value through surplus or deficit, those items or groups would have met the criteria in paragraph 10(b)(i), 10(b)(ii), or 13 at the beginning of the comparative period or, if acquired after the beginning of the comparative period, would have met the criteria in paragraph 10(b)(i), 10(b)(ii), or 13 at the date of initial recognition.</p>	
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<p><i>Derecognition of financial asset and financial liabilities</i></p> <p>IPSAS 29.118: Except as permitted by paragraph 119, an entity shall apply the derecognition requirements in paragraphs 17–39 and Appendix A paragraphs AG51–AG67 prospectively. If an entity derecognized financial assets under another basis of accounting as a result of a transaction that occurred before the adoption of this Standard and those assets would not have been derecognized under this Standard, it shall not recognize those assets.</p> <p>IPSAS 29.119: Notwithstanding paragraph 118, an entity may apply the derecognition requirements in paragraphs 17–39 and Appendix A paragraphs AG51– AG67 retrospectively from a date of the entity’s choosing, provided that the information needed to apply this Standard to assets and liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions.</p>	<p><i>Derecognition of financial asset and financial liabilities</i></p> <p>IFRS1.B2: Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in IAS 39 <i>Financial Instruments: Recognition and Measurement</i> prospectively for transactions occurring on or after the date of transition to IFRSs. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to IFRSs, it shall not recognise those assets and liabilities in accordance with IFRSs (unless they qualify for recognition as a result of a later transaction or event).</p> <p>IFRS1.B3: Notwithstanding paragraph B2, an entity may apply the derecognition requirements in IAS 39 retrospectively from a date of the entity’s choosing, provided that the information needed to apply IAS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.</p>
<p>Fair value measurement of financial assets and financial liabilities at initial recognition</p> <p>IPSAS 29.120: Notwithstanding paragraph 114, an entity may apply the requirements in the last sentence of paragraph AG108, and paragraph AG109, in either of the following ways:</p> <ul style="list-style-type: none"> (a) Prospectively to transactions entered into after the adoption of this Standard; or (b) Retrospectively from a date of the entity’s choosing, provided that the information needed to apply this Standard to assets and liabilities as a result of past transactions was obtained at the time of initially accounting for those transactions. 	<p>Fair value measurement of financial assets and financial liabilities at initial recognition</p> <p>IFRS 1.D20: Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of IAS 39 paragraph AG76 and in paragraph AG67A prospectively to transactions entered into on or after the date of transition to IFRS.</p>
<p>Hedge-accounting</p> <p>IPSAS 29.121: An entity shall not adjust the carrying amount of non-financial assets and non-financial liabilities to exclude gains and losses related to cash flow hedges that were included in</p>	<p><i>Hedge-accounting</i></p> <p>IFRS1.B4: As required by IAS 39, at the date of transition to IFRSs, an entity shall:</p> <ul style="list-style-type: none"> (a) measure all derivatives at fair value; and (b) eliminate all deferred losses and gains

<p>the carrying amount before the beginning of the financial year in which this Standard is first applied. At the beginning of the financial period in which this Standard is first applied, any amount recognized directly in net assets/equity for a hedge of a firm commitment that under this Standard is accounted for as a fair value hedge shall be reclassified as an asset or liability, except for a hedge of foreign currency risk that continues to be treated as a cash flow hedge.</p> <p>IPSAS 29.122: If an entity has designated as the hedged item an external forecast transaction that:</p> <ul style="list-style-type: none"> (a) Is denominated in the functional currency of the entity entering into the transaction; (b) Gives rise to an exposure that will have an effect on consolidated surplus or deficit (i.e., is denominated in a currency other than the economic entity's presentation currency); and (c) Would have qualified for hedge accounting had it not been denominated in the functional currency of the entity entering into it; <p>it may apply hedge accounting in the consolidated financial statements in the period(s) before the date of first application of the last sentence of paragraph 89 and paragraphs AG133 and AG134.</p> <p>IPSAS 29.123: An entity need not apply paragraph AG134 to comparative information relating to periods before the date of application of the last sentence of paragraph 89 and paragraph AG133.</p>	<p>arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.</p> <p>IFRS1.B5: An entity shall not reflect in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IAS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; or where the hedged item is a net position). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item in accordance with IFRSs, provided that it does so no later than the date of transition to IFRSs.</p> <p>IFRS1.B6: If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IAS 39, the entity shall apply paragraphs 91 and 101 of IAS 39 to discontinue hedge accounting. Transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges.</p>
<p>Aspect of the minimum information:</p>	<p>Appropriate designation, recognition, initial and subsequent measurement and, derecognition of financial assets and financial liabilities on adoption of IPSAS 29.</p>
<p>Assessment based on the qualitative characteristics of, and constraints on, information:</p>	<p><i>Recognition and measurement</i></p> <p>The existing transitional provisions in IPSAS 29 requires the retrospective application of the recognition and measurement principles in IPSAS 29, with an exception that if restatement of the opening balance of accumulated surplus or deficit for the earliest prior period presented and all other comparative amounts is impracticable, the entity is required to disclose that fact and indicate the extent to which the information was</p>

	<p>restated. Staff is of the view that impracticability should be considered as part of the cost-benefit consideration for those entities that elect to prepare comparative information relating to first-time adoption. Entities that do not elect to prepare a comparison will not be affected and the cost implication of retrospective application is therefore not relevant.</p> <p>An entity should be required to recognize and measure a financial asset and financial liability on the date of transition to IPSASs in meeting the relevance criterion. Consideration should be given, however, in allowing entities a three year grace period in which to recognize a financial asset and financial liability, but this will have an impact on faithful representation. The IPSASB has agreed on a three year grace period for the recognition of non-financial assets.</p> <p>IPSAS 29.119 provides some guidance on determining the fair value of financial asset and liabilities on initial recognition. These provisions are relevant in assisting the entity to determine a value that faithfully represents the value of the financial instrument on initial recognition.</p> <p><i>Classification of financial assets</i></p> <p>Allowing an entity to, on the date of transition, to designate a financial asset as available for sale, and a financial asset and financial liability at fair value through surplus or deficit, is a matter of relevance as it is capable of making a difference in achieving the objectives of financial reporting. Not allowing an entity to make such a designation on first-time adoption might impair the usefulness of the information, which might impact faithful representation of the financial position/performance and net assets/equity of an entity. Staff is therefore of the view that an entity should be allowed to make a designation on the date of transition, and that the designation should be made based on circumstances that exist on the date of transition. An entity should also be allowed to designate a financial asset as available for sale and financial instruments at fair value through surplus or deficit on the date of transition to improve relevance. As an entity is not required to present comparative information as agreed by the IPSASB, the IPSAS (or IFRS) transitional provisions requiring retrospective restatements are not applicable, except if an entity elects to present comparative information.</p> <p><i>Derecognition</i></p> <p>Allowing entities to apply the derecognition principles prospectively, unless an entity chooses retrospective application to the extent that the information needed was obtained at the time of initial accounting for those transactions, still provides information that is relevant and faithfully represents an entity's financial position while considering the cost-benefit of applying the requirement retrospectively.</p> <p><i>Hedge-accounting</i></p> <p>The transitional provisions in IFRS 1 focus broadly in applying the hedging requirements on the date of transition to IFRSs. The transitional</p>
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	<p>provisions in IPSAS 29 focus on specific transactions undertaken in prior periods and how these should be addressed. The requirements in IFRS 1, which require the application of hedge accounting from the date of adoption of IFRSs results in relevant information that is a faithful representation of an entity's financial position, while still considering the cost-benefit of applying these requirements retrospectively.</p> <p><i>Impairment of financial instruments</i></p> <p>Applying the impairment principles to financial instruments retrospectively will be costly and may even outweigh the benefit. It may also not be possible to apply "hindsight" in applying the impairment principles to the date of transition if an entity is allowed three years in which to recognize financial instruments as proposed above. Whether events and circumstances that indicate that an impairment will be significant often depends on management's judgment at a point in time. Obtaining the required information for such estimates and applying it retrospectively is in most cases impracticable and may also be inappropriate. Based on the trade-off between the qualitative characteristics and the constraints of information, staff is of the view that applying the impairment principles retrospectively outweighs the faithful representation and relevance.</p>
Fair presentation consideration:	<p>If an entity is allowed a three year grace period in which to recognize a financial asset and financial liability (as with other assets previously agreed) it will affect the fair presentation of an entity's financial statements on transition to IPSASs.</p> <p>Applying the derecognition and hedging principles prospectively, and allowing entities to designate a financial asset as available for sale, and a financial asset and financial liability at fair value through surplus or deficit, based on information available on the date of transition to IPSASs will not impact fair presentation.</p> <p>Because it is often impracticable to apply impairment principles retrospectively, staff is of the view that fair presentation will not be affected if the impairment principles are applied prospectively.</p>
Practical complexity/difficulty:	<p>Determining the fair value for financial instruments on initial adoption of IPSAS 29 may be difficult. The transitional provisions in IPSAS 29.120 (and IFRS 1.D20) provide some relief to an entity in determining the fair value of a financial instrument at initial adoption of the IPSAS (or IFRS), that could be applied on the initial transition to IPSASs.</p> <p>Entities may experience significant challenges in classifying (or re-classifying) financial instruments on transition to adoption of IPSASs, and in identifying all the financial instruments that should be recognized. Allowing entities a three year period in which to recognize financial instruments (which would include determining their appropriate classification), may assist entities with recognition and appropriate classification.</p>

Proposal for ED:	<p><i>Initial recognition of financial instruments</i></p> <p>Staff is of the view that an entity should be given a three year relief period in which to recognize and appropriately classify financial instruments on transition to IPSAS.</p>
Proposal for ED:	<p><i>Transitional provisions relating to the classification of financial instruments, hedge-accounting and derecognition</i></p> <p>Staff is of the view that, even though the transitional provisions in IPSAS 29 are similar to those in IFRS 1, the transitional arrangements in IPSAS 29 imply that an entity has historically applied financial instrument accounting similar to IAS 39, for example the provisions relating to hedge accounting. As this ED will be applied by entities that may have previously applied modified cash or modified accrual accounting, it is proposed that the transitional provisions in IFRS 1 relating to hedge-accounting, classification of financial instruments, and the derecognition of financial instruments should be considered for inclusion in the proposed Exposure Draft.</p>
Proposal for ED:	<p><i>Initial measurement of financial assets</i></p> <p>Staff is of the view that the transitional provisions in IPSAS 29, which are the same as those in IFRS 1, should be permitted on the adoption of IPSASs.</p>
Proposal for ED:	<p><i>Impairment of financial assets</i></p> <p>Considering the proposal to allow three years in which to recognize financial assets, staff is of the view that the impairment principles should be applied prospectively once financial assets are recognized.</p>
Basket:	<p>Basket 1: If a three year transitional exemption is granted for the recognition of financial instruments, fair presentation will be affected.</p> <p>Basket 2: Applying the derecognition, impairment, hedging and classification principles to financial instruments prospectively will not impact the fair presentation of the entity's financial position and performance on transition to IPSASs.</p>

Assessment of Transitional Accounting issues for IPSAS 30, *Financial Instruments: Disclosure*

Accounting issue:	Disclosure of information relating to financial instruments	
Outline of issue:	<ul style="list-style-type: none"> IPSAS 30 sets out the disclosure requirements that an entity is required to provide for financial instruments to allow users to evaluate the significance of financial instruments and identifying the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at reporting date. Staff has considered to what extent the disclosure requirements should be applied on the date of adoption of IPSASs. 	
Minimum information affected:	Note disclosures.	
Transitional Provisions in IPSAS:		Transitional Provisions in IFRS 1:
<p>IPSAS 30.52: If an entity applies this Standard for annual periods beginning before 1 January 2013, it need not present comparative information for the disclosures required by paragraphs 38-49 about the nature and extent of risks arising from financial instruments.</p> <p>IPSAS 30.53: When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's financial statements covering periods beginning on or after the date of adoption.</p>		<p>Appendix E provides the following short-term exemptions from IFRSs relating to financial instruments</p> <p>IFRS1.E3: A first-time adopter may apply the transitional provisions in 44G of IFRS 7 – an entity need not provide disclosures required by the amendments relating to <i>Improving Disclosures about Financial Instruments</i>.</p> <p>IFRS1.E4: A first-time adopter may apply the transitional provisions in paragraph 44M of IFRS 7 – an entity need not provide the disclosures required by those amendments relating to transfers of assets for any period presented that begins before the date of initial application of the amendments.</p>
Aspect of the minimum information:	Appropriate disclosure - appropriate information should be disclosed on financial instruments to evaluate the significance of financial instruments and to identify the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period.	
Assessment based on the qualitative characteristics of, and constraints on, information:	For information to be relevant, comparable and understandable , sufficient information needs to be provided to evaluate the significance of financial instruments. Disclosure of information relating to financial instruments is relevant as it provides information required for accountability purposes and to facilitate a better understanding of the financial position and financial performance. Not disclosing information relating to financial instruments will likely not result in fair presentation of the financial position and financial performance of an entity. As a	

	<p>significant amount of disclosures are required around the categories of financial instruments, reclassification, derecognition, fair value measurement and the nature and extent of risks arising from financial instruments the cost of providing such disclosures is likely to be high, but the benefits outweigh the cost as the information presented provides relevant. The information will also enhance comparability and understandability.</p> <p>There is a trade-off between the qualitative characteristics and the constraints on the information to be disclosed. Staff is of the view that faithful representation, relevance, comparability and understandability outweigh the cost of providing disclosure of information relating to financial instruments. However, based on the practical complexity/difficulty criterion it may not be possible to obtain information relating to the nature and extent of risks arising from prior period financial instruments.</p>
Fair presentation consideration:	Not disclosing information relating to financial instruments and the nature and extent of risks arising from financial instruments at first-time adoption will affect fair presentation.
Practical complexity/difficulty:	<p>An entity that did not provide, or did not disclose information similar to or consistent with IPSAS 30 in their previous financial statements may not have the information required.</p> <p>Most required by IPSAS 30 should be available at the end of the first reporting period following the date of transition to IPSASs. Disclosure relating to the nature and extent of risks arising from prior periods may however not be available.</p>
Proposal for ED:	<p>Staff is of the view that the following transitional provisions in IPSAS 30 are necessary on first time adoption:</p> <ul style="list-style-type: none"> (a) No transitional provisions should be provided for disclosures relating to the classes of financial instruments and disclosures relating to the categories of financial instruments, reclassification, derecognition, defaults and breaches and fair value measurement. (b) As it may not be practical to obtain information about the nature and extent of risk arising from prior period financial instruments, an entity should be required to apply the disclosure requirements relating to the nature and extent of risks arising from financial instruments, prospectively. If the entity has elected to present comparative information, the entity need not present comparative information for disclosures relating to the nature and extent of risks arising from financial instruments for comparative information. An entity should only be required to provide information relating to the nature and extent of risks to which it is exposed at the end the reporting period. (c) If the IPSASB agrees that financial instruments should not be recognized on the first time adoption of IPSASs (i.e. that a three

	year grace period should be allowed), the disclosures required by IPSAS 30 will be provided as and when the financial instruments are recognized.
Basket:	<p>(a) No transitional provisions are needed for disclosures on classes of financial instruments that will enable users to evaluate the significance of financial instruments for its financial position and performance.</p> <p>(b) As prospective application is proposed for disclosures around the nature and extent of risks, staff is of the view that this falls into basket 1 as applying these requirements prospectively will not affect fair presentation.</p>

Issues Paper – First-time Adoption of Accrual Basis International Public Sector Accounting Standards**Background**

This Issues Paper sets out some of the significant issues that were identified during the development of the proposed Exposure Draft on *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* that needs to be discussed by the IPSASB. It also sets out the outstanding matters that the IPSASB needs to consider in developing the proposed Exposure Draft. These matters are separated into General Matters (Part A) and Technical Matters (Part B).

Action(s) requested

The IPSASB is requested to **discuss** and **provide preliminary views** on the issues arising out of the development of ED XX, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*.

PART A - GENERAL MATTERS

The adoption of accrual basis IPSASs is a complex undertaking for many governments and entities. There is often an expectation from first-time adopters that standard-setters should provide more detailed guidance and assistance on the adoption of the Standards, which is often neither feasible nor appropriate. As a result, staff is of the view that any possible expectation gap between what first time adopters expect or would like, and what the purpose of this project is, needs to be managed and explained when the Exposure Draft is issued.

To address this gap, staff proposes outlining, in the introductory material of the Exposure Draft, the following:

- The objective of this project, and that it focuses on providing a comprehensive set of principles that should be applied by entities when they adopt IPSASs. This comprehensive set of principles replaces the current transitional provisions which are dispersed throughout the suite of IPSASs and often deal with issues inconsistently.
- Outline the existing material available to support the adoption of IPSASs, including references to Study 14 and training material developed by IFAC.
- Note that the issuing of the Exposure Draft does not mean that additional initiatives are not, or will not, be considered in future for the first time adoption of IPSASs. Future consultations on the IPSASB's strategy and work plan may consider further initiatives in this area.

Matter for Consideration

1. Members are asked to confirm whether they agree with the staff's proposal to include commentary in the introduction to the Exposure Draft as outlined above.

PART B - TECHNICAL MATTERS

1. Use of a deemed cost to measure assets on the first-time adoption of IPSASs

1.1 Determining a deemed cost for assets

The IPSASB agreed that, at the date of transition, an entity may elect to measure inventory that:

- (a) was acquired in a non-exchange transaction;
- (b) was acquired in an exchange transaction for which the cost information about the historical cost of the inventory is not available; or
- (c) are held for distribution at no or for a nominal charge, or that will be used in the production process to be distributed at no or for a nominal charge, or will be consumed or distributed in the rendering of services;

at a deemed cost, which is fair value at the date of transition.

For other assets, the IPSASB agreed at its September 2012 meeting that a deemed cost should be allowed for investment property (where an entity elects to use the cost model in IPSAS 16) and property, plant and equipment. This decision was confirmed at the December meeting, where the IPSASB also agreed that a similar approach should be adopted for intangible assets.

The IPSASB agreed that the use of deemed cost should be limited for inventories acquired in exchange transactions, i.e. that deemed cost can only be used if cost information is not available.

This restriction was agreed to avoid the potential for recognizing gains on revaluing acquired inventory to fair value. Limiting the use of deemed cost to situations where historical information is not available was however not discussed in the context of deemed cost for investment property, property, plant and equipment and intangible assets. Staff therefore wish to confirm whether such a restriction should only apply to inventories acquired in exchange transactions, or whether it should also be extended to other assets where entities is allowed to determine a deemed cost.

When the Board agreed that deemed cost should be permitted for investment property, property, plant and equipment and intangible assets, it was agreed that the principles in IFRS 1 should be adopted. IFRS 1 does however not restrict when deemed cost can be used. To illustrate, IFRS 1 states that: “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. The transitional provisions in IPSAS 17.98 on the first time adoption of the Standard note that “Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition”. This clearly limits the use of deemed cost to situations where cost is not known.

There is merit in restricting the use of deemed cost to situations where cost information is not available for assets as this avoids selective valuation of assets. It might however be too onerous for entities to demonstrate whether cost information is available or not, as well as whether or not such information is in fact reliable.

As entities are likely to have the cost information for inventories acquired in an exchange transaction given the short-term nature of such assets, the restriction is appropriate to avoid manipulating inventory values by remeasuring them immediately to fair value. Given the longer term nature of other assets, this is likely to be less of a risk.

On balance, staff is of the view that there should be no restriction on when deemed cost can be used by entities for other assets (similar to the approach in IFRS 1).

Proposed wording, which allows an entity to use deemed cost for all assets (except inventory acquired in an exchange transaction), irrespective of whether information about those assets is available on date of transition, is included in the proposed Exposure Draft in the section that explains the use of deemed cost.

“An entity may, at the date of transition, elect to measure the following assets acquired at their fair values and use that fair value as their deemed cost:

- (a) Investment property, if an entity elects to use the cost model in IPSAS 16;**
- (b) An item of property, plant and equipment; or**
- (c) An intangible asset, other than an internally generated intangible asset, that meets:**
 - (i) The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and**
 - (i) The criteria in IPSAS 31 for revaluation (including the existence of an active market).”**

Matter(s) for Consideration

2. Members are asked to:
 - (a) Confirm whether they agree with the proposal in allowing entities to determine a deemed cost for all assets acquired (except for inventory acquired in an exchange transaction) irrespective of whether information about those assets are available on date of transition, or whether determining a deemed cost should also be limited to circumstances where historical information is not available on the date of transition; and
 - (b) If members support the proposal, confirm whether the proposed wording addresses the matter sufficiently

1.2 Determining a deemed cost for assets on transition

IFRS 1.D5 outlines that an entity may elect to measure an item of property, plant and equipment at fair value at the date of transition to IFRSs and use that value as its deemed cost at that date. Paragraph IFRS 1.D6 goes on to state that, in determining a deemed cost, an entity 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:

- (a) Fair value; or
- (b) Cost or depreciated cost, where appropriate, in accordance with IFRSs adjusted to reflect, for example, changes in a general or specific price index.

Although IFRS 1 establishes the principle that fair value should be used in determining deemed cost, it acknowledges that other measurement bases may be appropriate for property, plant and equipment, i.e. previous revaluations that are equivalent to cost or depreciated cost determined in accordance with other Standards. The IPSASB agreed at its September 2012 meeting that the approach in IFRS 1.D6 should be allowed to measure items of property, plant and equipment on the first-time adoption of IPSAS 17.

In determining “fair value”, the guidance in each applicable Standard will be considered, where such guidance is provided. For example, in measuring items of property, plant and equipment at fair value on the date of transition, the fair value guidance in IPSAS 17 should be considered. This guidance notes that fair value is normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 does however state that if market based evidence is not available to measure items of property, plant and equipment to fair value, then an entity can estimate fair value using replacement cost, reproduction cost or a service units approach. The guidance in IPSAS 16 only considers a market-based value. Limited guidance is provided in IPSAS 12 on fair value and merely states that fair value is the amount at which inventory would be exchanged in arms’ length transactions in the market.

Staff is of the view that entities may find it difficult to determine a market-based fair value for all investment properties and inventories. As a result, it has considered whether other measurement alternatives could be used in determining deemed cost for inventory or investment property when an entity is not able to estimate fair value on the date of transition due to the lack of an active market.

Staff considers that the following measurement alternatives could be used where market-based evidence of fair value is not available on the date of transition:

- Inventory – Current replacement cost may be an alternative to using fair value. Current replacement cost may be appropriate for inventories where no active market exists, such as those that will be distributed at no or for a nominal consideration. Examples could include food aid, medical supplies etc.
- Investment property – Depreciated replacement cost may be an alternative to fair value where the building is of a specialized nature.

For an intangible asset, the IPSASB agreed that an active market should be available before an entity can determine a deemed cost for the intangible asset on transitions, which is consistent with the requirements of IFRS 1.D7(b)(ii).

Matter(s) for Consideration

3. Members are asked to:
- (a) Consider whether it is appropriate to include a measurement alternative for inventory and investment property on the date of transition; and
 - (b) If measurement alternatives should be considered, confirm whether the measurement alternatives proposed are appropriate.

1.3 Determining a deemed cost where the entity has taken advantage of the transitional exemption not to recognize an asset for a period of time

As noted above, the IPSASB agreed that an entity should be allowed to determine deemed cost for its assets at the date of transition. The IPSASB also agreed that entities should be allowed a three year transitional relief period for recognizing certain assets at the date of transition.

The IPSASB has however not yet considered whether an entity will be required to determine deemed cost for the assets only on the date of transition, or whether the entity will be allowed to determine deemed cost on the date that the asset is recognized or when the transitional provisions in those IPSASs expire, ie three years. For example, when an entity adopts IPSASs on 1 January 2010 and takes advantage of the three year transitional exemption not to recognize an asset, the entity has three years in which to recognize the asset. Will the entity be required to determine a deemed cost on 1 January 2010, or may an entity determine the deemed cost during the third transitional period commencing on 1 January 2012? A diagram has been included as Annexure A to this memo for ease of reference.

Staff is of the view that the entity should be allowed to determine deemed cost at any point in time within the three year transitional period until it expires. Staff is also of the view that the entity should not be required to retrospectively determine what the value of the asset would have been at the date of transition as the entity may not be able to assess what the value of the asset was at that date. Such an assessment would require consideration of the price of the asset and other market factors that existed on the date of transition, including whether there was any indication that the asset was impaired. Issue 2.4 and 2.5 below which deal with other issues related to the granting of a three year relief period.

Once it has been decided at what date an entity is allowed to determine the value of its assets, it must be decided which opening accumulated surplus or deficit should be adjusted. At present, the

proposed ED outlines that the opening accumulated surplus or deficit at the date of transition should be adjusted (see paragraph 20). This means that if an entity only recognizes assets in year 3, this would require retrospective restatement of prior year information. It might however be easier to adjust the opening balance of accumulated surplus or deficit of the year that the asset is recognized, for example, only in year 3 if an entity takes advantage of the full 3 years allowed.

Matter(s) for Consideration

4. Members are asked to:

- (a) Consider whether they support the proposal that an entity should be allowed to determine deemed cost at any point in time within the three year transitional period until it expires, or when the relevant assets are recognized (whichever is earlier); and
- (b) Consider whether they support the proposal that the deemed cost value determined at that point in time should not be adjusted retrospectively to the date of transition?
- (c) Consider whether the opening accumulated surplus or deficit at the date of transition should be adjusted, or adjust the opening accumulated surplus or deficit of the year in which the asset is recognized?

2. Interaction between the asset Standards and other IPSASs where recognition is not required for a period of time

The IPSASB agreed that a transitional relief period of three years should be allowed for the recognition of assets, in particular investment property, an item of property, plant and equipment, intangible assets, biological assets and agricultural produce.

It was agreed at previous meetings that staff needs to address if, and how the interaction between the transitional relief period granted for assets affects other IPSASs.

2.1 Impact of relief period on leased assets

During the three year relief period during which entities are permitted to recognize assets, they would likely still be in the process of identifying the assets they should account for, classifying them according to their nature (investment property, property, plant and equipment, biological assets etc), and determining at what values they should be measured. As part of this process, entities are likely to analyze title deeds, contracts and other similar arrangements, including lease arrangements, in determining what assets should be accounted and at what value.

As a result of the relief provided in IPSAS 16, 17, 27 and 31, entities may not be in a position to account for finance lease assets in accordance with IPSAS 13 until such time as the relief period allowed in other Standards has expired and/or the assets have been accounted for (whichever is earlier). Consequently, entities should not be required to recognize finance lease assets that are possibly within the scope of IPSASs 16, 17, 27 and 31 until such time as the transitional period in those Standards has expired or the assets have been recognized in accordance with those Standards.

This does however mean that if the recognition of finance lease assets is delayed, the recognition of any finance lease liabilities will also be delayed. Where an entity is in the process of analyzing contracts that may result in the recognition of finance lease assets, it may be useful to disclose that fact, along with any other information that users may find relevant.

Staff has therefore included the following paragraph in the proposed Exposure Draft for IPSAS 13:

“To the extent that a first-time adopter has taken advantage of transitional provisions for IPSAS 16, 17, 27 and 31 which allow a three year period to recognize assets, an entity is not required to apply the requirements related to finance leases until such time as the transitional provisions in those IPSASs expire and/or the relevant assets are recognized in accordance with those Standards (whichever is earlier).

Notwithstanding the transitional provision in paragraph XX, an entity is encouraged to comply with the provisions of IPSAS 13 as soon as possible.

IPSASs 16, 17, 27 and 31 allow an entity a period of up to three years from the date of transition to recognize assets. During this period, an entity may need to consider the recognition requirements of those Standards at the same time as considering the requirements for finance lease assets in this Standard. As a result, where an entity is in the process of considering the requirements of IPSASs 16, 17, 27 and 31 at the same time as this Standard, an entity is not required to apply the requirements related to finance leases until such time as the relief period provided in those Standards expires or the relevant assets have been recognized (whichever is earlier).”

Matter(s) for Consideration

5. Members are asked:

- (a) To confirm whether they agree with the proposal in dealing with the interaction between the transitional provisions for IPSASs 16, 17, 27 and 31 and the effect on finance leases, or provide alternative direction.
- (b) If members support the proposal, confirm whether the proposed wording addresses the matter sufficiently.

2.2 Impact of the relief period on the recognition of provisions included in the initial cost of property, plant and equipment

The IPSASB concluded that no transitional relief should be provided for provisions and liabilities in the proposed Exposure Draft. It was however agreed that staff should assess whether the delay in the recognition of property, plant and equipment affects the recognition of certain provisions which are included in the cost of such assets.

IPSAS 17.30 requires an entity to include as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 17.32 requires that the obligation for costs accounted for in accordance with IPSAS 17 is recognized and measured in accordance with IPSAS 19.

Where an entity elects to apply the three year relief period in IPSAS 17 and also needs to include, as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, a timing difference will occur between the recognition of the asset and the recognition of the provision. This is because the relief period of three years is allowed for the recognition of the asset, but no relief period is

allowed for the recognition of the liability (the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located).

In order to address the timing difference, staff proposes that the transitional exemptions for the recognition of liabilities relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, should be reconsidered. It is proposed that a transitional relief period of three years should also be allowed.

Staff has included the following paragraph in the proposed Exposure Draft for IPSAS 19:

“To the extent that a first-time adopter has taken advantage of transitional provisions for IPSAS 17 which allow a three year period to recognize assets, an entity is not required to recognize any liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until such time as the transitional provisions in IPSAS 17 expires and/or the relevant asset is recognized in accordance with the Standard (whichever is earlier).

Notwithstanding the transitional provision in paragraph XX, an entity is encouraged to comply with IPSAS 19 as soon as possible.

IPSAS 17 allows an entity a period of up to three years from the date of transition to recognize assets. IPSAS 17.30 requires an entity to include as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Where an entity is in the process of considering the requirements of IPSAS17 at the same time as this Standard, an entity is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until such time as the relief period provided in those Standards expires or the relevant assets is recognized (whichever is earlier). ”

Matter(s) for Consideration

6. Members are asked to:

- (a) Consider the proposal to include a transitional relief period of three years for the recognition of the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, where an entity has elected to apply the three year transition period for the recognition of an item of property, plant and equipment to which the liability relates; and
- (b) If members support the proposal, confirm whether the proposed wording addresses the matter sufficiently.

2.3 Impact of relief period on presentation related IPSASs

When an entity has taken advantage of the relief periods in IPSAS 16, 17, 27, 31 and 32, an entity may not be able to comply in full with the related disclosure requirements in IPSAS 1 *Presentation of Financial Statements* and IPSAS 18 *Segment Reporting*, until the transitional provisions in these IPSASs have expired and/or the assets have been recognized.

Staff proposes to include a paragraph in IPSAS 1 and 18 outlining that, to the extent that entities have taken advantage of the transitional provisions in other IPSASs on the date of transition, they will not be required to comply with the provisions in IPSAS 1 and IPSAS 18 until the transitional

provisions in those IPSASs expire and/or the relevant assets and/or liabilities have been recognized (whichever is earlier). This exemption may, however, affect the entity's fair presentation of its IPSAS financial statements and its ability to assert compliance with IPSASs for the periods in which it is applied.

The following paragraphs are proposed in the Exposure Draft for IPSAS 1 and IPSAS 18

“To the extent that a first-time adopter has taken advantage of the transitional provisions in this IPSAS in relation to items that need not to be recognized, an entity is not required to apply the related disclosure requirements of IPSAS 1 (or IPSAS 18) to such items until the transitional provisions expire or the items are recognized (whichever is earlier).”

Matter(s) for Consideration

7. Members are asked to:

- (a) Confirm if the proposed approach in dealing with the interaction between presentation related IPSASs where recognition of certain assets and/or liabilities is not required for reporting periods based on the relief provided in other IPSASs, or provide alternative direction; and
- (b) If members support the proposal, confirm whether the proposed wording addresses the matter sufficiently.

2.4 Impact of relief period on comparative information and reconciliations

Presentation of reconciliations

Except for entities that previously applied the cash basis of accounting, an entity is required in the proposed Exposure Draft to include information and explanations about how the transition from the previous basis of accounting affected its reported financial position and, where appropriate, its reported financial performance and cash flows. This is done through a reconciliation in the entity's financial statements.

As a result of the three year relief period allowed to recognize and/or measure certain items, an entity may be required to present this reconciliation at a number of different points during its transition.

Where an entity takes advantage of the any of the relief periods permitted, staff is of the view that an entity should present the reconciliation required by the proposed Exposure Draft as follows:

- In the year that the entity first applies the proposed Exposure Draft The reconciliation will explain differences between its previous basis of accounting and those items that are recognized and measured in accordance with IPSASs in the opening statement of financial position.
- In subsequent year/s when the entity recognizes and/or measures items in accordance with IPSASs to explain any differences between its previous accounting. The reconciliation will outline the changes from the prior year. For example: If an entity adopts the three year relief period for property, plant and equipment and only recognizes these assets in year 3, then the entity will present the reconciliation in year 1 and then again in year 3.

Comparative information

Entities are encouraged, but not required, to present comparative information in accordance with IPSASs in the year that the proposed Exposure Draft is first applied. This means that an entity need not prepare comparative information that has been prepared using IPSASs in the first year of adoption.

A question does however arise as to whether, and to what extent, comparative information is presented when an entity applies the three year relief period allowed in the proposed Exposure Draft.

Staff is of the view that comparative information should be presented in the reporting periods following the first year of adopting IPSASs for those items that were recognized and/or measured in accordance with IPSASs in prior periods. It may however not be possible to present comparative information for those items that are recognized and/or measured for the first time in a particular reporting period. For example, if an entity applies the three year relief for the recognition of assets and recognizes those at the end of year 3, it may not be possible to provide comparative information for those assets for year 2. As a result, comparative information should only be provided where practicable, based on how the entity has recognized and/or measured items during the relief period allowed.

As these issues are complex, staff is of the view that these areas should be explained in the Implementation Guidance.

Matter(s) for Consideration

8. Members are asked to:
 - (a) Confirm if they support the staff's proposals regarding the presentation of reconciliations and comparative information; and
 - (b) If members support the proposal, confirm whether they support the proposal that the matter should be explained in the Implementation Guidance.

2.5 Timing of impairment test for assets where an entity adopts the relief period for the recognition of assets

The IPSASB agreed at its December 2012 and March 2013 meeting that entities are required to test a non-cash-generating asset or a cash-generating asset prospectively for impairment on the date of transition. An entity may, in terms of the transitional provisions proposed in this Exposure Draft, elect not to recognize certain assets on a date within three years following the date of transition.

Staff is of the view that where an entity applies this relief period, it may not be able to apply the principles in IPSAS 21 and IPSAS 26 prospectively from the date of transition. If an entity has not recognized certain assets at the date of transition, then an entity will not be able to assess whether there is any indication those the assets are impaired. Similarly, an entity may find it difficult to determine the amount of adjustments that would be required at the expiration of the three year period (or the recognition of the relevant assets, whichever is earlier) based on impairment that may or may not have existed at the date of transition.

Staff therefore proposes that an entity should be allowed to apply the principles in IPSAS 21 and IPSAS 26 prospectively from the date when the transitional provisions relating to the recognition of the assets expires and/or when the relevant assets have been recognized in accordance with the Standard (whichever is earlier). The following paragraph has been included in the proposed Exposure Draft to clarify the prospective application of IPSAS 21 and IPSAS 26:

“An entity shall apply the requirements in IPSAS 21 (or IPSAS 26) prospectively from the date of transition, except in relation to those assets that have not been recognized in accordance with transitional provisions for IPSASs 16, 17, 27, 31 and 32. When an entity applies the transitional provisions for those Standards, it applies IPSAS 21 (or IPSAS 26) when the transitional period expires or when the relevant assets have been recognized (whichever is earlier).”

Matter(s) for Consideration

9. Members are asked:

- (c) To confirm whether they agree with the proposal, or provide alternative direction; and
- (d) If members support the prospective application after the transitional relief period relating to the recognition of assets have expired and/or when the relevant assets have been recognized in accordance with the Standard (whichever is earlier), confirm whether the proposed wording addresses the matter sufficiently.

3. Recognition of internally generated intangible assets previously expensed

On first-time adoption of accrual based IPSASs, an entity will be required to recognize all assets and liabilities for which recognition is required by IPSASs. IPSAS 31.70 requires that past expenditure on an intangible asset that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.

Under an entity's previous basis of accounting, it may have expensed costs incurred on an intangible asset. Staff is of the view that, on transition, an entity should recognize an intangible asset that meets the recognition criteria and other criteria in IPSAS 31 (ie identifiable control of an asset and future economic benefits or service potential), even though the costs may have been expensed under a previous basis of accounting. These assets should however only be recognized if reliable cost information is available and an active market exists.

Staff has included the following paragraph in the proposed Exposure Draft in clarifying past expenses not recognized as an intangible asset:

“An entity shall recognize an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, even if the entity has, under its previous basis of accounting, expensed such costs. A deemed cost may not be determined for internally generated intangible assets”

Matter(s) for Consideration

10. Members are asked to confirm:

- (a) Whether they agree that an entity should, on transition, recognize an internally generated intangible asset that meets the recognition and other criteria in IPSASs 31, irrespective of whether past costs were expensed; and
- (b) If members support the proposal, confirm whether the proposed wording addresses the matter sufficiently.

4. Guidance on assets and liabilities of controlled entities, controlling entities, associates and joint ventures

IFRS 1.D16 and D17 provide relief in instances where there is a timing difference between the adoption of IFRSs by either a parent (controlling entity) or a subsidiary (controlled entity). These paragraphs are outlined below for ease of reference:

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or
- (b) the carrying amounts required by the rest of this IFRS, based on the subsidiary's date of transition to IFRSs. These carrying amounts could differ from those described in (a):
 - (i) when the exemptions in this IFRS result in measurements that depend on the date of transition to IFRSs.
 - (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in IAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model. A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Staff is of the view that such guidance would be of value to entities in the public sector, particularly as accrual IPSASs may be adopted over a period of time at, for example, different levels of government or by different types of entities within a government. As a result, staff is of the view that equivalent transitional provisions should be included in the proposed Exposure Draft

Matter for Consideration

11. Members are asked to consider the proposal to include transitional provisions, similar to that provided in IFRS 1, for controlling entities and their controlled entities when one becomes a first-time adopter later than the other.

5. Guidance on severe hyperinflation

In considering the assessment of whether transitional exemptions should be included for IPSAS 10 *Financial Reporting in Hyperinflationary Economies*, the IPSASB concluded that no transitional relief should be provided in the proposed Exposure Draft.

IFRS 1.D26 to D30 includes exemptions to the retrospective application of IFRSs on initial adoption relating to severe hyperinflation. This exemption requires that the entity determine whether it was subject to severe hyperinflation before the date of transition to IFRSs. When an entity's date of transition to IFRSs is on, or after, the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs. The entity may use that fair value as the deemed cost for those assets and liabilities in the opening IFRS statement of financial position. The normalization date is the date when the functional currency no longer has characteristics of a hyperinflationary currency, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

This exemption was not included in the proposed Exposure Draft as the IPSASB agreed not to provide any relief to an entity on first-time adoption of IPSASs for IPSAS 10. Staff is however of the view that the transitional exemption should be included to provide relief in instances where an entity was subjected to severe hyperinflation prior to the adoption of IPSASs.

Matter for Consideration

12. Members are asked to consider staff's proposal to include a transitional exemption that will provide relief to an entity in instances where it was subjected to severe hyperinflation prior to the adoption of IPSASs.

6. Implementation guidance

Implementation guidance has been included in the proposed Exposure Draft and represents work in progress as it only deals with selected matters agreed at previous IPSASB meetings.

Matter for Consideration

13. Members are asked to identify any other matters that should be addressed in the implementation guidance.

7. Way forward

Following the IPSASB's discussion on the matters raised in this Issues paper, staff will amend the principles in the proposed Exposure Draft and the Implementation guidance and include additional guidance where needed. The updated Exposure Draft, including the Basis for Conclusions will be presented at the September 2013 meeting.

Matter for Consideration

14. Members are asked to note the way forward on this project.

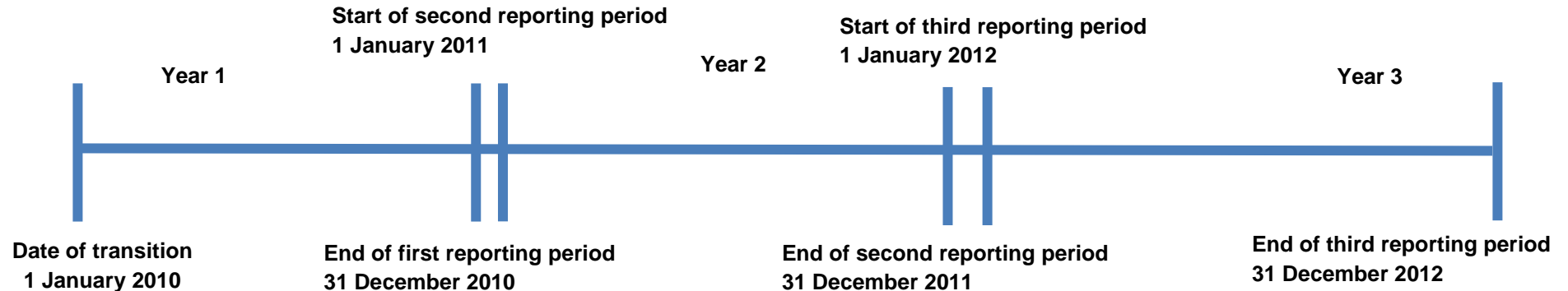
Timeline – First Time Adoption IPSAS (assuming that entity elects to apply the three year relief)

Scenario:

An entity adopts IPSASs on 1 December 2010 by applying the Proposed IPSAS on the First Time Adoption of Accrual Basis IPSASs.

The entity elects to apply the three year relief period for the recognition of property, plant and equipment. Assume that it does not take advantage of any other relief periods. It also elects to NOT present comparative information.

The entity recognises all property, plant and equipment by 31 December 2012.



<p><u>Year 1</u> Cannot claim compliance with IPSASs</p> <p>Present the following statements:</p> <ul style="list-style-type: none"> *opening statement of financial position *statement of financial position as at 31/12/2010 *statement of financial performance for 31/12/2010 *statement of changes in net assets as at 31/12/2010 *cash flow statement for 31/12/2010 *statement of comparison of budget and actual information for 31/12/2010 <p>(depending on policy chosen for presentation of info – might be additional column in AFS)</p> <p>Present the following in the notes:</p> <ul style="list-style-type: none"> *reconciliation of changes from previous basis of accounting (reflect adjustments related to the adoption of all IPSASs besides IPSAS 17) 	<p><u>Year 2</u> Cannot claim compliance with IPSASs</p> <p>Present the following statements for <u>both</u> 31/12/2011 <u>and</u> 2010:</p> <ul style="list-style-type: none"> *statement of financial position *statement of financial performance *statement of changes in net assets *cash flow statement <p>Present the statement of comparison of budget and actual information for 31/12/2011 <u>only</u> (depending on policy chosen for presentation of info)</p>	<p><u>Year 3</u> Present financial statements in accordance with IPSASs</p> <p>Present the following statements for <u>both</u> 31/12/2012 <u>and</u> 2011:</p> <ul style="list-style-type: none"> *statement of financial position *statement of financial performance *statement of changes in net assets *cash flow statement <p>Present the statement of comparison of budget and actual information for 31/12/2012 <u>only</u> (depending on policy chosen for presentation of info)</p> <p>Present the following in the notes:</p> <ul style="list-style-type: none"> *reconciliation of adjustments made to recognize PP&E
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Proposed International Public Sector Accounting Standard xx (ED xx) on

First-time Adoption of Accrual Basis International Public Sector Accounting Standards

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 IPSASs, contain high quality information that:
 - (a) Provides transparent reporting about, and better insight into, an entity's 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 prior to the date of transition; and
 - (c) Can be generated at a cost that does not exceed the benefits.

Scope

2. **An entity shall apply this IPSAS when it prepares and presents its first financial statements using accrual basis IPSASs ("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, including the adoption of voluntarily exemptions provided in this IPSAS;
 - (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 accrual basis 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 only to changes in accounting policies made by an entity that already applies accrual basis 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:

Date of transition is the beginning of the earliest period for which an entity presents financial statements in accordance with this IPSAS.

Deemed cost is an amount used as a surrogate for acquisition 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 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-time adopter is an entity that presents its first IPSAS financial statements.

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

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

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

Date of transition

10. The date of transition is the date that an entity adopts accrual basis IPSASs for the first time in accordance with this IPSAS. If the entity adopts the voluntarily exemptions in this IPSASs, the entity can only make an explicit and unreserved statement of compliance with IPSASs when the exemptions that provided the relief have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in the financial statements (whichever is earlier). If the entity has not adopted the voluntarily exemptions in this IPSASs, it may be able to make an explicit and unreserved statement of compliance with IPSASs on the date of transition.

Deemed Cost

11. Deemed cost is a measurement basis for an asset, which is a substitute for acquisition cost or depreciated cost at a given date. For the first-time adoption of IPSASs, that date is the date of transition to IPSASs. Deemed cost is determined for example where the acquisition cost of the asset cannot be determined on the date of transition. 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 and use fair value as its deemed cost at that date. Any subsequent depreciation is based on the fair value determined at that date and starts from the date for which an entity has established the deemed cost.
12. The use of deemed cost at the first-time adoption of IPSASs is not considered a revaluation or the application of the fair value model for subsequent measurement in accordance with other IPSASs.

Previous Basis of Accounting

13. The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSASs which either refers to the cash basis of accounting, 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, other events and conditions when they occur and not only when cash or its equivalent is received or paid. Under the accrual basis of accounting, transactions, other events and conditions 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 while only cash receipts and cash payments are recognized under the cash basis of accounting. A modified version of the cash basis, for example, is characterized by the fact that only some 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 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.

Recognition and Measurement

Opening IPSAS Statement of Financial Position

- 14. An entity shall prepare and present an opening statement of financial position at the date of transition. This is the starting point for its accounting in accordance with IPSASs.**

Accounting Policies

- 15. 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.**
- 16. An entity shall use the same accounting policies in its opening statement of financial position and throughout all periods presented, except as specified in paragraphs 31–117. The accounting policies shall comply with each IPSAS effective at the date of transition, except as specified in paragraphs 31–117.**
17. An entity that adopts the voluntarily exemptions in paragraph 31–117 will be required to amend its accounting policies after the exemptions that have provided the relief have expired or as the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in the financial statements in accordance with IPSASs (whichever is earlier).
18. An entity shall apply the versions of IPSASs effective at the date of transition. An entity may apply a new IPSAS that is not yet mandatory if that IPSAS permits early application. Any new IPSASs that become effective during the period in which the entity has adopted the voluntarily exemptions should be applied by the entity from the date it became effective.
19. Except as described in paragraphs 31–117, an entity shall, in its opening 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 statement of financial position may differ from those that it used at the end of its comparative period under its previous basis of accounting. The resulting adjustments arise from transactions, other events or conditions before the date of transition. Therefore, an entity shall recognize those adjustments to the opening balance of accumulated surplus or deficit (or, if appropriate, another category of net assets/equity). An entity shall recognize these adjustments for the earliest period presented.

Fair Presentation and Compliance with IPSASs

- 21. 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 certain voluntarily exemptions in paragraphs 31–117 may affect the fair presentation of an entity's financial statements for the period they are used.

- 22. An entity shall claim full compliance with IPSASs only when it has complied with all the requirements of the applicable IPSASs effective at that date. An entity's ability to assert compliance with IPSASs may be affected by its adoption of certain voluntary exemptions provided in paragraphs 31–117. According to IPSAS 1.28 the entity's 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.**
23. According to IPSAS 1.29 fair presentation is achieved in virtually all circumstances by compliance with the applicable IPSASs. For an entity to claim full compliance with IPSASs, all the requirements of the applicable IPSAS needs to be complied with to ensure that information is presented in a manner that provides relevant, reliable, comparable and understandable information.
24. Certain exemptions in paragraphs 31–117 provide relief from the recognition, measurement, presentation and/or disclosure requirements in IPSASs on first-time adoption. An entity may voluntarily adopt these exemptions, but should consider that applying these exemptions may affect the fair presentation of its financial statements and its ability to assert compliance with IPSASs in accordance with paragraphs 21 and 22 until the exemptions that provide relief have expired or the relevant items are recognized, measured, and/or the relevant information has been presented and/or disclosed in the financial statements in accordance with IPSASs (whichever is earlier). Before making use of such exemptions, entities should consider all the relevant facts and circumstances and the potential affect on an entity's financial statements.
25. The voluntarily exemptions that an entity may adopt, and which may affect the fair presentation of its financial statements and its ability to assert compliance with IPSASs in accordance with paragraphs 21 and 22 include:
 - (a) Consolidated and separate financial statements (see paragraph 52);
 - (b) Interests in joint ventures (see paragraph 55);
 - (c) Leases (paragraph 62);
 - (d) Investment property (see paragraph 66);
 - (e) Property, plant and equipment (see paragraph 70);
 - (f) Segment reporting (see paragraph 74);
 - (g) Provisions, contingent liabilities and contingent assets (see paragraph 77);
 - (h) Related party disclosures (see paragraph 80);
 - (i) Revenue from non-exchange transactions (see paragraph 85);
 - (j) Employee benefits (see paragraph 92);
 - (k) Agriculture (see paragraph 104);
 - (l) Intangible assets (see paragraph 107); and
 - (m) Service concession arrangements (see paragraph 112).

Exceptions to the Retrospective Application of Other IPSASs

26. This IPSAS prohibits retrospective application of some aspects of other IPSASs. These exceptions are set out in paragraphs 27–30.

Estimates

27. **An entity's estimates in accordance with IPSASs at the date of transition shall be consistent with estimates made 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 inconsistent with the requirements in IPSASs.**
28. An entity may receive information after the date of transition about estimates that it had made under the previous basis of accounting. In accordance with paragraph 27, 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*.
29. An entity may need to make estimates in accordance with IPSASs at the date of transition 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. In particular, estimates at the date of transition 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.
30. Paragraphs 27–29 apply to the opening statement of financial position. They also apply to a comparative period, in which case the references to the date of transition are replaced by references to the end of that comparative period.

Exemptions from Requirements of IPSASs

31. **An entity may be required or elect to use one or more of the exemptions contained in paragraphs 39 to 117. An entity shall not apply these exemptions by analogy to other items.**

Using Deemed Cost to Measure Assets on the First-time Adoption

32. **An entity may, at the date of transition to IPSAS 12, 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 in the ordinary course of operations; or**
 - (ii) **Consumption in the production process of goods to be distributed at no charge or for a nominal charge; or**
 - (iii) **Consumption or distribution of goods in rendering of services**
- at their fair value and use that fair value as deemed cost at that date.**

- 33. An entity may, at the date of transition, elect to measure the following assets at their fair values and use that fair value as their deemed cost:**
- (a) Investment property, if an entity elects to use the cost model in IPSAS 16 (see paragraph 69);**
 - (b) An item of property, plant and equipment (see paragraph 73); or**
 - (c) An intangible asset, other than an internally generated intangible asset that meets:**
 - (i) The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and**
 - (ii) The criteria in IPSAS 31 for revaluation (including the existence of an active market) (see paragraph 111).**
- 34. A first-time adopter may elect to use the revaluation amount of an item of property, plant and equipment under its previous basis of accounting at, or before, the date of transition to IPSASs as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:**
- (a) Fair value; or**
 - (b) Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.**
- 35. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of a specific event:**
- (a) If the measurement date is at or before the date of transition, the entity may use such event-driven fair value measurements as deemed cost for IPSASs at the date of that measurement.**
 - (b) If the measurement date is after the date of transition, but during the period covered by the first IPSAS financial statements, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognize the resulting adjustments directly in accumulated surplus or deficit at the date of transition.**
- 36. The exemptions above refer to fair value. In determining fair values in accordance with this IPSAS, an entity shall apply the definition of fair value and any specific guidance in other IPSASs on the determination of fair values for the asset in question. Those fair values shall reflect conditions that existed at the date for which they were determined.**

Use of Deemed Cost for Investments in Controlled Entities, Jointly Controlled Entities and Associates (IPSAS 6, 7 and 8)

- 37. Where an entity measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may elect to measure that investment at one of the following amounts in its separate opening 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 fair value (determined in accordance with IPSAS 29 Financial Instruments: Recognition and**

Measurement) at the entity's date of transition to IPSASs in its separate financial statements.

38. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for an investment in a controlled entity, joint venture or associate by measuring them at their fair value at one particular date because of a specific event. In such instances, an entity applies paragraph 37(a) and (b).

IPSAS 1, Presentation of Financial Statements

39. **To the extent that a first-time adopter has taken advantage of the transitional provisions in this IPSAS in relation to items that need not to be recognized, an entity is not be required to apply the related disclosure requirements of IPSAS 1 to such items until the transitional provisions expire or the items assets are recognized, measured, and/or the relevant information has been presented and/or disclosed in the financial statements in accordance with IPSASs (whichever is earlier).**
40. **Notwithstanding the transitional provision in paragraph 39, an entity is encouraged to disclose the information required by IPSAS 1 as soon as possible.**

Comparative Information

41. **An entity is encouraged, but not required, to present IPSAS comparative information in the first financial statements presented in accordance with this IPSAS.**
42. **Where an entity elects to present IPSAS comparative information, the first financial statements presented in accordance with this IPSAS shall include:**
- (a) **Three statements of financial position, which includes an opening statement of financial position;**
 - (b) **Two statements of financial performance;**
 - (c) **Two statements of changes in net assets/equity;**
 - (d) **Two cash flow statements;**
 - (e) **A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the entity makes its approved budget publicly available; and**
 - (f) **Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 121.**
43. **Where an entity elects to not present IPSAS comparative information, its first financial statements presented in accordance with this IPSASs shall include:**
- (a) **Two statements of financial position, which includes an opening statement of financial position;**
 - (b) **One statement of financial performance;**
 - (c) **One statement of changes in net assets/equity;**
 - (d) **One cash flow statement;**

- (e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the entity makes its approved budget publicly available; and**
- (f) Related notes and the disclosure of narrative information about material adjustments as required by paragraph 121.**

Non-IPSAS Comparative Information

44. 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

45. 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 disclose the nature of the main adjustments that would make it comply with IPSASs. An entity need not quantify those adjustments.

IPSAS 4, The Effects of Changes in Foreign Exchange Rates

46. **On the date of transition an entity need not comply with the requirements for cumulative translation differences that exist at the date of transition. 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; 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 and shall include later translation differences.**
47. **An entity shall apply the requirement to treat any goodwill (see the relevant international or national accounting standard dealing with entity combinations) arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, as assets and liabilities of the foreign operation, prospectively on the date of transition.**
48. If a first-timer adopter takes advantage of the exemption provided in paragraph 47, the entity shall not restate prior years for the acquisition of a foreign operation acquired prior to the date of transition, and accordingly may, where appropriate, treat goodwill and fair value adjustments arising on acquisition as assets and liabilities of the entity rather than as asset and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

IPSAS 5, Borrowing Costs

- 49. An entity is encouraged, but not required, to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment.**
- 50. Where an entity adopts or changes its accounting policy to the benchmark treatment the entity is allowed to designate any date before the date of transition and apply IPSAS 5 prospectively on or after that designated date.**
- 51. Where an entity changes its accounting policy to the benchmark treatment and applies IPSAS 5 prospectively, any borrowing costs incurred both before and after date of transition, on qualifying assets for which the commencement date for capitalization is prior to the date of transition, shall be recognized in accordance with the allowed alternative treatment.**

IPSAS 6, Consolidated and Separate Financial Statements

- 52. An entity is not required to eliminate balances, transactions, revenue and expenditure between entities within the economic entity for reporting periods beginning on a date within three years following the date of transition.**
- 53. A first-time adopter may have controlled entities with a significant number of transactions between these entities. Accordingly, it may be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 52 provides entities relief with a period of up to three years to fully eliminate balances transactions, revenue and expenditure between entities within the economic entity.
- 54. Notwithstanding the transitional provision in paragraph 52, an entity is encouraged to eliminate those balances, transactions, revenue and expenditure that are known at the date of transition, to comply in full with the provisions of IPSAS 6.**

IPSAS 8, Interests in Joint Ventures

- 55. Where an entity adopts the proportionate consolidation treatment as set out in IPSAS 8, 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.**
- 56. A first-time adopter may have controlled and jointly controlled entities with a significant number of transactions between these entities. Accordingly, it may initially be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the financial statements. For this reason, paragraph 55 provides entities relief with a period of up to three years to fully eliminate balances and transactions between entities and their jointly controlled entities.
- 57. Notwithstanding the transitional provision in paragraph 55, an entity is encouraged to eliminate those balances and transactions that are known at the date of transition, to comply in full with the provisions of IPSAS 8.**
- 58. Where the joint venture is in the form of a jointly controlled operation or jointly controlled asset, a first-time adopter is allowed to use the transitional provisions of this IPSAS relating**

to assets and liabilities in accounting for its interest in the jointly controlled assets and liabilities.

59. IPSAS 8 requires a venturer to account for its interest in the assets, liabilities, revenues and expenses of the jointly controlled operation or jointly controlled asset. A first-time adopter is allowed to make use of the transitional provisions in this IPSAS relating to assets and liabilities to account for its interest in the jointly controlled assets and liabilities.

IPSAS 12, Inventories

60. **An entity may on the date of transition, elect to measure inventory at its fair value and use that fair value as its deemed cost at that date, subject to the provisions of paragraphs 32.**

IPSAS 13, Leases

61. **An entity shall on the date of transition, classify all existing leases as operating or finance leases on the basis of circumstances existing at the inception of the lease, to the extent that these are known on the date of transition.**
62. **To the extent that a first-time adopter has taken advantage of the transitional provisions for IPSAS 16, 17, 27 and 31 which allow a three year period to recognize assets, an entity is not required to apply the requirements related to finance leases until such time as the transitional provisions in those IPSASs expire and/or the relevant assets are recognized in accordance with those IPSASs (whichever is earlier).**
63. This IPSAS allows an entity a period of up to three years from the date of transition to recognize assets in accordance with IPSAS 16, 17, 27 and 31. During this period, an entity may need to consider the recognition requirements of those IPSASs at the same time as considering the requirements for finance lease assets in this Standard. As a result, where an entity is in the process of considering the requirements of IPSASs 16, 17, 27 and 31 at the same time as this IPSAS, an entity is not required to apply the requirements related to finance leases until such time as the relief period provided in those IPSASs expires or the relevant assets are recognized (whichever is earlier).
64. While an entity is not required to recognize leased assets or liabilities in their financial statements in relation to those assets and liabilities that have not been recognized as a result of applying the transitional provisions this IPSAS, an entity is encouraged to apply the disclosure requirements included in IPSAS 13 insofar as they related to liabilities to the extent possible.
65. **Notwithstanding the transitional provisions in paragraphs 61 and 62, an entity is encouraged to comply with IPSAS 13 as soon as possible.**

IPSAS 16, Investment Property

66. **An entity is not required to recognize investment property for reporting periods beginning on a date within three years following the date of transition.**
67. The exemption from applying the recognition requirements of IPSAS 16 in paragraph 66 implies that any associated presentation and disclosure requirements need not be applied until the transitional provisions expire, or the investment property has been recognized (whichever is earlier).

- 68. **Notwithstanding the transitional provision in paragraph 66, an entity is encouraged to comply in full with IPSAS 16 as soon as possible.**
- 69. **If an entity elects to use the cost model in IPSAS 16 the entity may at the date of transition, elect to measure investment property at its fair value and use that fair value as its deemed cost at that date, subject to the provisions in paragraphs 33 to 36.**

IPSAS 17, Property, Plant and Equipment

- 70. **An entity is not required to recognize an item of property, plant and equipment for reporting periods beginning on a date within three years following the date of transition.**
- 71. The exemption from applying the recognition requirements of IPSAS 17 in paragraph 70 implies that any associated presentation and disclosure requirements need not be applied until the transitional provisions expire, or an item of property, plant and equipment has been recognised (whichever is earlier).
- 72. **Notwithstanding the transitional provisions in paragraph 70, an entity is encouraged to comply in full with IPSAS 17 as soon as possible.**
- 73. **An entity may at the date of transition, elect to measure an item of property, plant and equipment at its fair value and use that fair value as its deemed cost at that date, subject to the provisions in paragraphs 33–36.**

IPSAS 18, Segment Reporting

- 74. **An entity is not required to report segment information for reporting periods beginning on a date within three years following the date of transition.**
- 75. **To the extent that a first-time adopter has taken advantage of the transitional provisions in this IPSAS in relation to items that need not to be recognized, an entity is not required to apply the related disclosure requirements of IPSAS 18 to items until the transitional provisions expire or the items are recognized (whichever is earlier).**
- 76. **Notwithstanding the transitional provisions in paragraph 74 and 75, an entity is encouraged to disclose the information required by IPSAS 18 as soon as possible.**

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

- 77. **To the extent that a first-time adopter has taken advantage of transitional provisions for IPSAS 17 which allow a three year period to recognize assets, an entity is not required to recognize the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until such time as the transitional provisions for IPSAS 17 expires and/or the relevant asset is recognized in accordance with that Standard (whichever is earlier).**
- 78. **Notwithstanding the transitional provision in paragraph 77, an entity is encouraged to comply with IPSAS 19 as soon as possible.**
- 79. IPSAS 17 allows an entity a period of up to three years from the date of transition to recognize assets. IPSAS 17.30 requires an entity to include as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other

than to produce inventories during that period. Where an entity is in the process of considering the requirements of IPSAS17 at the same time as this Standard, an entity is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until such time as the relief period provided in that Standards expires or the relevant assets recognized. The entity measures the liability as at the date of transition.

IPSAS 20, Related Party Disclosures

- 80. An entity is not required to disclose related party relationships, related party transactions and information about key management personnel for reporting periods beginning on a date within three years following the date of transition.**
- 81. Notwithstanding the transitional provision in paragraph 80, an entity is encouraged to disclose related party relationships, related party transactions and information about key management personnel that are known at the date of transition to IPSAS. An entity is encouraged to comply with the requirements of IPSAS 20 as soon as possible.**

IPSAS 21, Impairment of Non-cash-generating Assets

- 82. An entity shall apply the requirements in IPSAS 21 prospectively from the date of transition, except in relation to those assets that have not been recognized in accordance with transitional provisions for IPSASs 16, 17, 27, 31 and 32. When an entity applies the transitional provisions for those Standards, it applies IPSAS 21 when the transitional period expires or when the relevant assets are recognized (whichever is earlier).**
- 83. An entity shall on the date of transition, perform an impairment test under IPSAS 21 for its non-cash-generating assets recognized in the opening statement of financial position if there is an indication at the date of transition that any of these assets are impaired. Any impairment loss incurred on the date of transition shall be recognized in opening accumulated surplus or deficit.**
- 84. An entity shall apply the requirements in IPSAS 21 prospectively. This means that on the date of transition to IPSAS 21, an entity shall be required to test any non-cash-generating assets recognized in its opening statement of financial position for impairment if there is an indication that any of these assets are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of transition.

IPSAS 23, Revenue from Non-exchange Transactions (Taxes and Transfers)

Revenue from Non-exchange Transactions

- 85. An entity is not required to change its accounting policy in respect of the recognition and measurement of non-exchange revenue for reporting periods beginning on a date within three years following the date of transition.**
- 86. An entity is not required to change in its accounting policy in respect of the recognition and measurement of revenue from of non-exchange transactions for reporting periods beginning on a date within three years following the date of transition. The transitional provision is intended to allow entities a period to develop reliable models for recognizing and measuring revenue from non-exchange transactions during the transitional period. An entity may apply accounting policies for the recognition of revenue from non-exchange transactions that do not comply with the provisions of

IPSAS 23. The transitional provisions allow an entity to apply IPSAS 23 incrementally to different classes of revenue from non-exchange transactions. For example, an entity may be able to recognize and measure property taxes and some other classes of transfers in accordance with IPSAS 23 from the date of transition to IPSASs, but may require three years to fully develop a reliable model for recognizing and measuring income tax revenue.

- 87. Notwithstanding the transitional provision in paragraph 85, an entity is encouraged to change its accounting policies for the recognition and measurement of revenue from non-exchange transactions as soon as possible. An entity shall however only change its accounting policies to better conform to the accounting policies of IPSAS 23. An entity may change its accounting policy in respect of revenue from non-exchange transactions on a class-by-class basis.**
88. When an entity takes advantage of the transitional provisions in paragraph 87 an entity may retain its existing accounting policies until it decides to fully apply the provisions of IPSAS 23, or until the transitional period of three years expire, whichever is earlier.
- 89. When an entity takes advantage of the transitional provision in paragraph 85, that fact shall be disclosed. The entity shall also disclose:**
- (a) Which classes of revenue from non-exchange transactions are recognized and measured in accordance with IPSAS 23;**
 - (b) Those classes of revenue from non-exchange transactions that have been recognized and measured under an accounting policy that is not consistent with the requirements of IPSAS 23.**

Assets Acquired Through a Non-exchange Transaction

- 90. An entity may elect to measure an asset acquired through a non-exchange transaction at the date of transition to IPSAS 23 at its fair value and use that fair value as its deemed cost at that date, unless other specific measurement requirements are set out in an IPSASs on the date of transition.**
91. When an entity takes advantage of the transitional provision in paragraphs 90, that fact shall be disclosed.

IPSAS 25, Employee Benefits

- 92. An entity is not required to recognize defined benefit plans and other long-term employee benefits for reporting periods beginning on a date within three years following the date of transition to IPSASs. All other employee benefits should be recognized on the date of transition.**
93. The exemption from applying the recognition requirements in paragraph 92 implies that any associated presentation and disclosure requirements need not be applied until the transitional provisions expire, or defined benefit plans and other long-term employee benefits have been recognized (whichever is earlier).
- 94. Notwithstanding the transitional provisions in paragraph 92, an entity is encouraged to comply in full with IPSAS 25 as soon as possible.**

Defined Benefit Plans

95. On the date of transition an entity shall determine its initial liability for defined benefit plans at that date as:
- (a) The present value of the obligation at the date of transition by using the Projected Unit Credit Method;
 - (b) Minus the fair value, at the date of transition, of plan assets (if any) out of which the obligations are to be settled directly;
 - (c) Minus any past service cost that shall be recognized in later periods as an expense on a straight-line basis over the average period until the benefits become vested.
96. If the initial liability in accordance with paragraph 95 is more or less than the liability that was recognized at the end of the comparative period under the entity's previous basis of accounting, the entity shall recognize that increase/decrease in opening accumulated surplus or deficit.
97. On the date of transition, the effect of the change in the accounting policy to IPSAS 25 includes any actuarial gains and losses that arose, if any, in earlier periods, even if they fall outside the corridor specified in IPSAS 25. Under its previous basis of accounting, an entity may not have recognized any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of transition, of any plan assets in accordance with paragraph 95(b) and any past service cost to recognized in later periods in accordance with paragraph 95(c). This increased liability is recognized in opening accumulated surplus or deficit.
98. An entity shall not split the cumulative actuarial gains and losses from the inception of the defined benefit plan(s) until the date of transition of into a recognized and unrecognized portion. All cumulative actuarial gains and losses shall be recognized in opening accumulated surplus or deficit.
99. An entity is not permitted to split cumulative actuarial gains and losses into recognized and unrecognized portions on adoption of IPSAS 25. All cumulative actuarial gains and losses shall be recognized in opening accumulated surplus or deficit. This requirement does however not preclude an entity electing to recognize only parts of its actuarial gains and losses in accordance with paragraphs 105–107 in IPSAS 25 in subsequent reporting periods.
100. A first-time adopter shall disclose information on experience adjustments in accordance with IPSAS 25.141(p) prospectively on the date of transition.

IPSAS 26, Impairment of Non-cash-generating Assets

101. An entity shall apply the requirements in IPSAS 26 prospectively from the date of transition, except in relation to those assets that have not been recognized in accordance with the transitional provisions for IPSASs 16, 17, 27, 31 and 32. When an entity applies the transitional provisions for those Standards, it applies IPSAS 26 when the transitional period expires or when the relevant assets have been recognized (whichever is earlier).
102. An entity shall, on the date of transition to IPSASs perform an impairment test under IPSAS 26 for its cash-generating assets recognized in the opening statement of financial position if there is an indication at the date of transition that any of these assets are impaired. Any

impairment loss incurred on the date of transition shall be recognized in opening accumulated surplus or deficit.

103. An entity shall apply the requirements in IPSAS 26 prospectively. This means that on the date of transition to IPSAS 26, an entity shall be required to test any cash-generating assets recognized in its opening statement of financial position for impairment if there is an indication that any of these assets are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of transition.

IPSAS 27, Agriculture

104. **An entity is not required to recognize biological assets and agricultural produce for reporting periods beginning on a date within three years following the date of transition.**
105. The exemption from applying the recognition requirements of IPSAS 27 in paragraph 104 implies that any associated presentation and disclosure requirements need not be applied until the transitional provisions expire, or biological assets and agricultural produce are recognized (whichever is earlier).
106. **Notwithstanding the transitional provisions in paragraph 104, an entity is encouraged to comply in full with IPSAS 27 as soon as possible.**

IPSAS 31, Intangible Assets

107. **An entity is not required to recognize an intangible asset for reporting periods beginning on a date within three years following the date of transition.**
108. The exemption from applying the recognition requirements of IPSAS 31 in paragraph 107 implies that any associated presentation and disclosure requirements need not be applied until the transitional provisions expire, or the individual intangible asset is recognized (whichever is earlier).
109. **Notwithstanding the transitional provision in paragraph 107, an entity is encouraged to comply in full with IPSAS 31 as soon as possible.**
110. **An entity shall recognize an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, even if the entity has, under its previous basis of accounting, expensed such costs. A deemed cost may not be determined for internally generated intangible assets.**
111. **An entity may, on the date of transition to IPSAS 31, elect to measure an intangible asset, that meets the recognition criteria in IPSAS 31 (excluding the reliable measurement criterion) and the criteria in IPSAS 31 for revaluation (including the existence of an active market) at its fair value and use that fair value as its deemed cost at that date, subject to the provisions in paragraphs 33 to 36.**

IPSAS 32, Service Concession Arrangements

112. **An entity is not required to recognize a service concession asset and the related liability, either under the financial liability model or the grant of a right to the operator model for reporting periods beginning on a date within three years following the date of transition.**
113. The exemption from applying the recognition requirements of IPSAS 32 in paragraph 112 implies that any associated presentation and disclosure requirements need not be applied until the

transitional provisions expire, or the service concession asset or liability are recognized (whichever is earlier).

- 114. Notwithstanding the transitional provisions in paragraph 112, an entity is encouraged to comply in full with IPSAS 32 as soon as possible.**

Initial Measurement of a Service Concession Asset

- 115. An entity may at the date of transition, elect to measure a service concession asset at its fair value and use that fair value as its deemed cost at that date, subject to the provisions in paragraphs 33 to 36.**

Initial Measurement of Related Liability

- 116. Where an entity elects to measure a service concession asset using deemed cost at the date of transition, the related liability shall be measured as follows:**
- (a) For the liability under the financial liability model, the remaining contractual cash flows specified in the binding arrangement and the rate prescribed in IPSAS 32; or**
 - (b) For the liability under the grant of a right to the operator model, the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.**
- 117. An entity shall recognize any difference between the value of the asset and the financial liability under the financial liability model in paragraph 116 in opening accumulated surplus or deficit.**

Presentation and Disclosure

- 118. Where an entity takes advantage of the transitional provisions in this IPSAS, the following disclosures shall be made in the financial statements:**
- (a) The fact that the entity has taken advantage of certain transitional provisions;**
 - (b) The assets, liabilities, revenue and/or expenses that have not been recognized, measured, and/or presented and/or disclosed in accordance with the applicable IPSAS at the previous reporting date, but which are now so recognized and/or measured;**
 - (c) The nature and amount of any adjustments recognized during the reporting period; and**
 - (d) The date that it will comply in full with the requirements of the applicable IPSAS, as well as information on the progress made by the entity towards recognizing, measuring and/or presenting and/or disclosing assets, liabilities revenue and/or expenses in accordance with the requirements of those IPSAS.**
- 119. The disclosure requirements of paragraph 118 assist users to track the progress of an entity in conforming its accounting policies to the requirements in during the reporting periods in which the transitional provisions apply.**

Explanation of Transition to IPSASs

- 120. An entity shall disclose information and explanations 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

121. Where an entity has recognized adjustments during the reporting period to comply with IPSASs, it shall present in the notes:

- (a) 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; and**
- (b) A reconciliation 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.

122. The reconciliation presented in terms of paragraph 121 shall provide 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 shall be included in the notes.

123. If an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required by paragraph 121 shall distinguish the correction of those errors from changes in accounting policies.

124. 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.

125. If an entity did not present financial statements for previous periods, its first financial statements shall disclose that fact.

Disclosure where Deemed Cost is used for Inventory, Investment Property, an item of Property, Plant and Equipment, an Intangible Asset or a Service Concession Asset

126. If an entity uses fair value as deemed cost for inventory, investment property, an item of property, plant and equipment, an intangible asset, or a service concession asset, the entity's financial statements shall disclose:

- (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

127. If an entity uses fair value as deemed cost in its opening statement of financial position for an investment in a controlled entity, jointly controlled entity or associate in its separate financial statements, the entity's separate financial statements shall disclose:

- (a) The aggregate deemed cost of those investments for which deemed cost is fair value; and**

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

128. The disclosure requirements required in paragraph 126 and 127 shall be disclosed until relevant assets are recognized or the transitional provisions related to those assets have expired (whichever is earlier).

Effective date

129. An entity shall apply this Standard if its first IPSAS financial statements are for a period beginning on or after DDMMYY. Earlier application is permitted.

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 selected issues based on matters agreed at previous IPSASB meetings.

Presenting Comparative Information

IG1. Paragraph 41 of IPSAS xx (ED xx) encourages, but does not require an entity to present comparative information in its first financial statements in accordance with this IPSAS. The decision to present comparative information affects not only the extent of the information presented, but also the date of transition.

Date of Transition

IG2. To illustrate: The end of an entity's first accrual basis reporting period is 31 December 20X5. The entity decides to present comparative information in those financial statements for one year only (see paragraph 41). Therefore, its date of transition is the beginning of the comparative period ie 1 January 20X4 (or equivalently 31 December 20X3). The entity presented financial statements in accordance with its previous basis of accounting annually to 31 December each year up to, and including, 31 December 20X4.

Information Presented when an Entity Elects to Prepare Comparative Information

Where the entity elects to prepare comparative information, it is required to apply the accrual basis IPSASs effective for periods ending on 31 December 20X5 in:

- (a) Preparing and presenting its opening accrual basis statement of financial position at 1 January 20X4; and
- (b) Preparing and presenting
 - (i) Its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4);
 - (ii) Statement of financial performance (including comparative amounts for 20X4);
 - (iii) Statement of changes in net assets/equity for 31 December 20X5 (including comparative amounts for 20X4);
 - (iv) Statement of cash flows for the year to 31 December 20X5 (including comparative amounts for 20X4);
 - (v) Disclosures (including comparative information for 20X4);
 - (vi) A comparison of budget and actual amounts for the year to 31 December 20X5; and
 - (vii) Reconciliations in accordance with paragraph 121.

Entity Elects to Not Prepare Comparative Information

Where the entity elects not to prepare comparative information, it is required to apply the accrual basis effective for periods ending on 31 December 20X5 in:

- (a) Preparing and presenting its opening accrual basis statement of financial position at 1 January 20X4; and

(b) Preparing and presenting

- (i) Its statement of financial position for 31 December 20X5;
- (ii) Statement of financial performance;
- (iii) Statement of changes in net assets/equity for 31 December 20X5;
- (iv) Statement of cash flows for the year to 31 December 20X5;
- (v) Disclosures;
- (vi) A comparison of budget and actual amounts for the year to 31 December 20X5; and
- (vii) Reconciliations in accordance with paragraph 121.

IG3. 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 financial statements.

Estimates

IG4. IPSAS xx (ED xx) paragraph 27 requires that an entity's estimates in accordance with IPSASs at the date of transition shall be consistent with estimates made for at the end of its comparative period 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 about estimates that it had made under the previous basis of accounting. In accordance with paragraph 27, 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*.

IG5. For example, assume that an entity's date of transition 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 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.

Deemed Cost

IG6. IPSAS xx(ED xx) allows an entity to determine a deemed cost as a substitute for acquisition cost or depreciated cost at the date of transition for inventory, investment property, an item of property, plant and equipment, and an intangible asset under certain provisions. When an entity initially measures these assets on the date of transition using the deemed cost approach, it recognizes the effect:

- (a) As an adjustment to the opening balance of accumulated surpluses or deficits in the opening statement of financial position; or
- (b) In revaluation surplus if an entity adopts the revaluation model in IPSAS 17, *Property, Plant and Equipment* or IPSAS 31, *Intangible Assets*.

IG7. Subsequent depreciation and amortization, if applicable, is based on that deemed cost and starts from the date of transition in terms of the applicable IPSASs.

IPSAS 4, The Effects of Changes in Foreign Exchange Rates

IG8. IPSAS 4 requires an entity to:

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

The exemption provided in paragraph 46 of IPSAS xx (ED xx) provides a first-time adopter with relief from this requirement.

IPSAS 5, Borrowing Costs

IG9. IPSAS 5 allows an entity to apply the benchmark treatment, or to the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, an entity may elect to apply the allowed alternative method. On transition, an entity may elect to adopt the benchmark treatment, and is allowed in terms of paragraph 50 of IPSAS xx (ED xx) to designate any date before the date of transition and apply IPSAS 5 prospectively from that date. Where an entity has elected to present comparative information in terms of paragraph 41 of IPSAS xx (ED xx), the comparative statement of financial performance may include borrowing costs that are treated differently compared to the entity's previous basis of accounting when the entity has designated a date before the date of transition to apply the benchmark treatment in accounting for borrowing costs.

IPSAS 9, Revenue from Exchange Transactions

IG10. If an entity has received amounts that do not yet qualify for recognition as revenue in accordance with IPSAS 9 (for example, the proceeds of a sale that does not qualify for revenue recognition), the entity recognises the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received.

IPSAS 10, Financial Reporting in Hyperinflationary Economies

IG11. An entity complies with IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* in determining its functional currency and presentation currency. When the entity prepares its opening statement of financial position, it applies IPSAS 10 to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

IG12. An entity may elect to use the fair value of an item of property, plant and equipment at the date of transition as its deemed cost at that date (paragraph 33 of IPSAS xx (ED xx)), in which case it gives the disclosures required by paragraph 126 of IPSAS xx (ED xx).

IG13. If an entity elects to use the exemptions in paragraphs 33 to 36 of IPSAS xx (ED xx), it applies IPSAS 10 to periods after the date for which the revalued amount or fair value was determined.

IPSAS 14, Events After the Reporting Date

IG14. Except as described in paragraph IG15, an entity applies IPSAS 14, *Events After the Reporting Date* in determining whether:

- (a) its opening statement of financial position reflects an event that occurred after the date of transition; and

- (b) comparative amounts in its first financial statements, where applicable, reflect an event that occurred after the end of that comparative period (see IPSAS xx (ED xx) paragraph 41).

IG15. Paragraphs 27–30 of IPSAS xx (ED xx) require some modifications to the principles in IPSAS 14 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of transition (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 27–30 of IPSAS xx (ED xx) do not require modifications to the principles in IPSAS 14.

- (a) Case 1— if an entity's previous basis of accounting required estimates of similar items for the date of transition, using an accounting policy that is consistent with IPSASs. In this case, the estimates in accordance with IPSASs need to be consistent with estimates made for that date in accordance with previous basis of accounting, unless there is objective evidence that those estimates were in error (see IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*). The entity reports later revisions to those estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of transition.
- (b) Case 2—Previous basis of accounting required estimates of similar items for the date of transition, but the entity made those estimates using accounting policies that are not consistent with its accounting policies in accordance with IPSASs. In this case, the estimates in accordance with IPSASs need to be consistent with the estimates required in accordance with the previous basis of accounting for that date (unless there is objective evidence that those estimates were in error), after adjusting for the difference in accounting policies. The opening statement of financial position reflects those adjustments for the difference in accounting policies. As in case 1, the entity reports later revisions to those estimates as events of the period in which it makes the revisions.

For example, the previous basis of accounting may have required an entity to recognise and measure provisions on a basis consistent with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, except that the previous basis of accounting's measurement was on an undiscounted basis. In this example, the entity uses the estimates in accordance with its previous basis of accounting as inputs in making the discounted measurement required by IPSAS 19.

- (c) Case 3— Previous basis of accounting did not require estimates of similar items for the date of transition. Estimates in accordance with IPSASs for that date reflect conditions existing at that date. In particular, estimates of market prices, interest rates or foreign exchange rates at the date of transition reflect market conditions at that date. This is consistent with the distinction in IPSAS 14 between adjusting events after the reporting period and non-adjusting events after the reporting period.

IG16. To illustrate: Entity A's first financial statements are for a period that ends on 31 December 20X5 with the entity electing to present comparative information. In terms of its previous basis of accounting the following transactions and events are noted in entity A's financial statements for 31 December 20X3 and 20X4:

- (a) Estimates of accrued expenses and provisions were made at those dates;

- (b) The entity accounted on a cash basis for a defined benefit pension plan; and
- (c) No provision was recognized for a court case arising from events that occurred in September 20X4. When the court case was concluded on 30 June 20X5, entity A was required to pay CU1,000 and paid this on 10 July 20X5.

In preparing its first financial statements, entity A concludes that its estimates in accordance with its previous basis of accounting of accrued expenses and provisions at 31 December 20X3 and 20X4 were made on a basis consistent with its accounting policies in accordance with IPSASs. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those overestimates and underestimates involves the routine adjustment of estimates in accordance with IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Application of Requirements

In preparing its opening statement of financial position at 1 January 20X4 and in its comparative statement of financial position at 31 December 20X4, entity A:

- (a) Does not adjust the previous estimates for accrued expenses and provisions; and
- (b) Makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with IPSAS 25 *Employee Benefits*. Entity A's actuarial assumptions at 1 January 20X4 and 31 December 20X4 do not reflect conditions that arose after those dates. For example, entity A's:
 - (i) Discount rates at 1 January 20X4 and 31 December 20X4 for the pension plan and for provisions reflect market conditions at those dates; and
 - (ii) Actuarial assumptions at 1 January 20X4 and 31 December 20X4 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 20X5.

The treatment of the court case at 31 December 20X4 depends on the reason why entity A did not recognize a provision in accordance with its previous basis of accounting at that date.

Assumption 1 – The previous basis of accounting was consistent with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions in accordance with IPSASs are consistent with its assumptions in accordance with its previous basis of accounting. Therefore, entity A does not recognize a provision at 31 December 20X4.

Assumption 2 – Entity A's previous basis of accounting was not consistent with IPSAS 19. Therefore, entity A develops estimates in accordance with IPSAS 19. Under IPSAS 19, an entity determines whether an obligation exists at the end of the reporting period by taking account of all available evidence, including any additional evidence provided by events after the reporting period. Similarly, in accordance with IPSAS 14 *Events after the Reporting Period*, the resolution of a court case after the reporting period is an adjusting event after the reporting period if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in September 20X4 (when the events occurred that gave rise to

the court case). Therefore, entity A recognizes a provision at 31 December 20X4. Entity A measures that provision by discounting the CU1,000 paid on 10 July 20X5 to its present value, using a discount rate that complies with IPSAS 19 and reflects market conditions at 31 December 20X4.

IG17. Paragraphs 27–30 of the IPSAS xx (ED xx) do not override requirements in other IPSASs that base classifications or measurements on circumstances existing at a particular date. Examples include:

- (a) The distinction between finance leases and operating leases (see IPSAS 13, *Leases*); and
- (b) The distinction between financial liabilities and equity instruments (see IPSAS 28, *Financial Instruments: Presentation*).

IPSAS 13, Leases

IG18. In accordance with paragraph 61 of IPSAS xx (ED xx) and paragraph 18 of IPSAS 13, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease, on the date of transition. In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification in accordance with IPSAS 13 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.

IPSAS 17, Property, Plant and Equipment

IG19. If an entity's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSASs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraphs 27 and 28 of IPSAS xx (ED xx) and paragraph 77 of IPSAS 17. However, in some cases, an entity's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSASs (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening statement of financial position retrospectively so that it complies with IPSASs.

IG20. An entity may elect to use one of the following amounts as the deemed cost of an item of property, plant and equipment:

- (a) Fair value at the date of transition (paragraph 33 of IPSAS xx (EDxx)), in which case the entity provides the disclosures required by paragraph 126 of IPSAS xx (ED xx); or
- (b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 34 of IPSAS xx (ED xx).

IG21. Subsequent depreciation is based on that deemed cost and starts from the date for which the entity established the deemed cost.

IG22. If an entity chooses as its accounting policy the revaluation model in IPSAS 17 for some or all classes of property, plant and equipment, it presents the cumulative revaluation surplus as a

separate component of net assets/equity. The revaluation surplus at the date of transition is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the fair value at the date of transition, the entity gives the disclosures required by paragraph 126 of IPSAS xx (ED xx).

- IG23. If revaluations in accordance with an entity's previous basis of accounting did not satisfy the criteria in paragraph 35 or 36 of IPSAS xx (ED xx), an entity measures the revalued assets in its opening statement of financial position on one of the following bases:
- (a) Cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the cost model in IPSAS 17;
 - (b) Deemed cost, being the fair value at the date of transition (paragraph 33 of IPSAS xx (ED xx)); or
 - (c) A revalued amount, if the entity adopts the revaluation model in IPSAS 17 as its accounting policy in accordance with IPSASs for all items of property, plant and equipment in the same class.
- IG24. IPSAS 17 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, IPSAS 17 does not prescribe the unit of measure for recognition of an asset, i.e. what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances (see IPSAS 17 paragraphs 18 and 59).

IPSAS 25, Employee Benefits

- IG25. At the date of transition, an entity applies IPSAS 25 in measuring defined benefits plans and other long-term employee benefits, and should recognise all cumulative actuarial gains or losses from the inception of the plan until the date of transition even if its accounting policy in accordance with IPSAS 25 will involve leaving some later actuarial gains and losses unrecognised (paragraph 98 of IPSAS xx (ED xx)).
- IG26. An entity's actuarial assumptions at the date of transition are consistent with actuarial assumptions made for at the end of its comparative period in accordance with its previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 29 of the IPSAS xx (ED xx)). The impact of any later revisions to those assumptions is an actuarial gain or loss of the period in which the entity makes the revisions.
- IG27. An entity may need to make actuarial assumptions at the date of transition that were not necessary in accordance with its basis of accounting. Such actuarial assumptions do not reflect conditions that arose after the date of transition. In particular, discount rates and the fair value of plan assets at the date of transition reflect market conditions at that date. Similarly, the entity's actuarial assumptions at the date of transition about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of transition (paragraph 29 of IPSAS xx (ED xx)).
- IG28. In many cases, an entity's first financial statements will reflect measurements of employee benefit obligations at three dates (where an entity has elected to present comparative information in terms of paragraph 41 of IPSAS xx (ED xx)): the end of the first reporting period, the date of the comparative statement of financial position (where the entity has elected to present comparative

information) and the date of transition. IPSAS 25 encourages an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimise costs, an entity may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (IPSAS 25 paragraph 68).

IPSAS 21 Impairment of Non-cash-generating Assets and IPSAS 26 Impairment of Cash-generating Assets

- IG29. An entity applies IPSAS 21 and IPSAS 26 in determining whether any impairment loss exists at the date of transition, and in measuring any impairment loss that exists at that date.
- IG30. The estimates used to determine whether an entity recognises an impairment loss (and to measure any such impairment loss) at the date of transition are consistent with estimates made for at the end of its comparative period in accordance with the entity's previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 27 and 28 of IPSAS xx (ED xx)). The entity reports the impact of any later revisions to those estimates as an event of the period in which it makes the revisions.
- IG31. In assessing whether it needs to recognise an impairment loss (and in measuring any such impairment loss) at the date of transition, an entity may need to make estimates for that date that were not necessary in accordance with its previous basis of accounting. Such estimates and assumptions do not reflect conditions that arose after the date of transition (paragraph 29 of IPSAS xx (ED xx)).

IPSAS 31, Intangible Assets

- IG32. An entity's opening statement of financial position excludes all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with IPSAS 31 at the date of transition and includes all intangible assets that meet the recognition criteria in IPSAS 31 at that date.
- IG33. The criteria in IPSAS 31 require an entity to recognise an intangible asset if, and only if:
- (a) It is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
 - (b) The cost of the asset can be measured reliably.

IPSAS 31 supplements these two criteria with further, more specific, criteria for internally generated intangible assets.

- IG34. In accordance with paragraphs 63 and 66 of IPSAS 31, an entity capitalises the costs of internally generated intangible assets prospectively from the date when the recognition criteria are met. IPSAS xx (ED xx) allows an entity to recognize previously expensed intangible assets to the extent that the item meets the definition of an intangible asset, and the recognition criteria in IPSAS 31. Thus, if an internally generated intangible asset qualifies for recognition at the date of transition, an entity recognises the asset in its opening statement of financial position even if it had recognised the related expenditure as an expense in accordance with its previous basis of accounting.

- IG35. If the asset does not qualify for recognition in accordance with IPSAS 31 until a later date, its cost is the sum of the expenditure incurred from that later date.
- IG36. The criteria discussed in paragraph IG 33 also apply to an intangible asset acquired separately. In many cases, contemporaneous documentation prepared to support the decision to acquire the asset will contain an assessment of the future economic benefits. Furthermore, as explained in paragraph 33 of IPSAS 31, the cost of a separately acquired intangible asset can usually be measured reliably.
- IG37. An entity may elect to use one of the following amounts as the deemed cost of an intangible asset (except for an internally generated intangible asset):
- (a) Fair value at the date of transition (paragraph 32 of IPSAS xx (EDxx)), in which case the entity gives the disclosures required by paragraph 121 of IPSAS xx (ED xx); or
 - (b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 35 of IPSAS xx (ED xx).
- IG38. Subsequent amortization is based on that deemed cost and starts from the date for which the entity established the deemed cost.
- IG39. If an entity's amortization methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSASs, it accounts for any change in estimated useful life or amortization pattern prospectively from when it makes that change in estimate (paragraphs 27 and 28 of IPSAS xx (ED xx) and paragraph 103 of IPSAS 31). However, in some cases, an entity's amortization methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSASs (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated amortization on in its opening statement of financial position retrospectively so that it complies with IPSASs.