

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Lisbon, Portugal

Meeting Date: September 12–16, 2022

Agenda Item 5

For:

- ☒ Approval
☐ Discussion
☐ Information

PROPERTY, PLANT, AND EQUIPMENT

Project summary	The project objective is to develop enhanced guidance clarifying the recognition and measurement of infrastructure and heritage assets that are Property, Plant, and Equipment.	
Task Force members	<ul style="list-style-type: none"> David Watkins, IPSASB Technical Advisor (Task Force Chair) Takeo Fukiya, IPSASB Technical Advisor Francesco Capalbo, Second University of Naples Jonathan Fothergill, RICS Elles Mukunyadze, Public Accountants and Auditors Board (Zimbabwe) 	
Meeting objectives	Topic	Agenda Item
Project management	Project, Plant, and Equipment: Project Roadmap	5.1.1
	Instructions up to Previous Meeting	5.1.2
	Decisions up to Previous Meeting	5.1.3
Decisions required at this meeting	Measurement of Property, Plant, and Equipment	5.2.1
	Measurement Bases – Current Value Model	5.2.2
	Heritage Assets Characteristics	5.2.3
	Other Instructions	5.2.4
	Approval of IPSAS 45, <i>Property, Plant, and Equipment</i>	5.2.5
Other supporting items	Supporting Documents 1 - [Draft] IPSAS 45, <i>Property, Plant, and Equipment</i>	5.3.1

PROPERTY, PLANT, AND EQUIPMENT: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
Earlier meetings (2015 - 2019)	1. The IPSASB developed its views on Heritage, Infrastructure, and Measurement, and issued two Consultation Papers (CP, Financial Reporting for Heritage in the Public Sector, and CP, Measurement).
March 2020	1. Decisions and instructions on Heritage, Infrastructure, and Measurement issues. 2. Instructions on revisions to IPSAS 17, Property, Plant and Equipment, to include in an [draft] ED for review in June 2020.
June 2020	1. Review and approve text for inclusion in the [draft] ED 78 (IPSAS 17 Update), Property, Plant, and Equipment. 2. Decisions and instructions on Heritage, Infrastructure and Measurement issues. 3. Provide instructions on further revisions to [draft] ED 78 (IPSAS 17 Update), Property, Plant, and Equipment.
September 2020	1. Decisions and instructions on remaining Heritage, Infrastructure, and Measurement issues impacting [draft] ED 78 (IPSAS 17 Update), Property, Plant, and Equipment. 2. Review and approve text for inclusion in the [draft] ED 78 (IPSAS 17 Update), Property, Plant, and Equipment.
December 2020	1. Approve ED 78 (IPSAS 17 Update), Property, Plant, and Equipment.
April 2021 – October 2021	1. Document Out for Comment.
December 2021	1. Preliminarily Review of Responses.
June 2022	1. Review Responses. 2. Discuss Issues.
September 2022	1. Develop Pronouncement. 2. Approve Pronouncement.

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
December 2021	1. Develop a detailed response analysis for the IPSASB's review in March 2022.	1. To be actioned for June 2022.
March 2022	2. Detailed review to take place in June 2022.	2. See June 2022 – Agenda Item 7
June 2022	3. Revise the drafting to enhance the clarity of the text and remove circularity between ED 77, <i>Measurement</i> , and ED 78 on initial measurement.	3. See Agenda Item 5.2.1
June 2022	4. Revise the drafting to enhance the clarity on what standard (ED 77 or ED 78) should be applied on the initial measurement of property, plant, and equipment.	4. See Agenda Item 5.2.1
June 2022	5. Revise the drafting to enhance the clarity of how the choice between measurement basis should be made.	5. See Agenda Item 5.2.2
June 2022	6. Re-evaluate cross-references between ED 77 and ED 78 on the selection of measurement basis.	6. See Agenda Item 5.2.4
June 2022	7. Reconsider the location and wording of paragraphs 26A and 29, as both paragraphs discuss the choice of measurement basis.	7. See Agenda Item 5.2.2
June 2022	8. Revise the drafting to enhance the clarity of the text on the possibility of having more than one class of property, plant, and equipment for the same type of property, plant, and equipment item.	8. See Agenda Item 5.2.4
June 2022	9. Revise the drafting of BC16 to enhance clarity and reflect that AG3 does not include all the characteristics of heritage assets.	9. See Agenda Item 5.2.4
June 2022	10. Consider adding “and disposal” to AG3(a)	10. See Agenda Item 5.2.3

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June 2022	11. Consider the development of non-authoritative guidance for the valuation of heritage assets by involving the Measurement Taskforce.	11. See Agenda Item 5.2.5
June 2022	12. Revise the drafting to explicitly acknowledge comments received from several constituents and why these were not taken forward by the IPSASB, in the Basis for Conclusions.	12. See Agenda Item 5.2.4
June 2022	13. Communicate the purpose of the guidance issued and set a clear expectation that the IPSASB will not be reopening it.	13. See Agenda Item 5.2.4
June 2022	14. Revise the drafting to shorten the authoritative guidance on the definition of an asset, AG8-AG15, in ED 78 or add a cross-reference to the definition of an asset in the Conceptual Framework.	14. See Agenda Item 5.2.4
June 2022	15. Bring forward a paper in September, working with the Measurement Taskforce, on how constituents look for specific guidance on initial and subsequent measurement	15. See Agenda Item 5.2.1
June 2022	16. Revise the drafting to reconcile terminology between paragraphs 37(e), AG6(a) and BC59(b) on electricity transmission networks.	16. See Agenda Item 5.2.4

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
February 2021	1. All instructions provided up until February 2021 were reflected in ED 78, Property, Plant, and Equipment .	1. All instructions provided up until February 2021 were reflected in ED 78, Property, Plant, and Equipment
June 2022	2. Agenda Item 7.2.1 - The structure of [Draft] IPSAS [X], Property, Plant, and Equipment (ED 78), should be retained.	2. Under development to be presented in December 2022.
June 2022	3. Agenda Item 7.2.2 - The choice over whether to select the Current Operational Value or Fair Value basis when measuring property, plant, and equipment, should be retained.	3. Under development to be presented in December 2022.
June 2022	4. Agenda Item 7.2.3 - A paragraph to clarify that the choice between Current Operational Value and Fair Value basis is an accounting policy choice, should be added.	4. Under development to be presented in December 2022.
June 2022	5. Agenda Item 7.2.5 - The infrastructure assets characteristics proposed in ED 78 should be retained.	5. Under development to be presented in December 2022.
June 2022	6. Agenda Item 7.2.6 - The scope of the new disclosure for unrecognized heritage assets proposed in ED 78 should be retained.	6. Under development to be presented in December 2022.
June 2022	7. Agenda Item 7.2.7 - The non-authoritative guidance developed for heritage assets proposed in ED 78 should be retained).	7. Under development to be presented in December 2022.
June 2022	8. Agenda Item 7.2.8 - The non-authoritative guidance developed for infrastructure assets proposed in ED 78 should be retained.	8. Under development to be presented in December 2022.

Measurement of Property, Plant, and Equipment

Question

1. Does the IPSASB agree to the deletion of paragraph 12 of [Draft] IPSAS 45, *Property, Plant, and Equipment*, and the revision of paragraph 5 in ED 77, *Measurement* to enhance clarity on what standard specific measurement guidance a reporting entity shall apply on the initial measurement of property, plant, and equipment?

Recommendation

2. To clarify what standard shall be applied when measuring property, plant, and equipment, Staff recommend the following revisions:

- (a) Deleting paragraph 12 from [draft] IPSAS 45:

Initial Measurement

11. An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, unless it is acquired through a non-exchange transaction. Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost.

~~12. When measuring an item of property, plant, and equipment at recognition, an entity shall apply [draft] IPSAS [X] (ED 77).~~

- (b) Revising paragraph 5 of ED 77:

5. The measurement requirements described in this [draft] Standard apply to both initial and subsequent measurements, unless specific guidance is included in the individual IPSAS.

Background

3. In June 2022, the IPSASB reviewed a comprehensive analysis of the responses to ED 78.
4. The IPSASB instructed staff to clarify what standard, ED 77 or ED 78, shall be applied on the initial measurement of property, plant, and equipment.

Analysis

5. [Draft] IPSAS 45 paragraph 11 requires property, plant, and equipment to be measured at cost at initial measurement. Paragraphs 14-23 of [draft] IPSAS 45 provide specific guidance on the elements and measurement of cost. This detailed initial measurement guidance in [draft] IPSAS 45 is contradicted by paragraph 12 which states that when measuring an item of property, plant, and equipment an entity shall apply ED 77, see [Appendix A](#) for relevant excerpts from ED 77 and [draft] IPSAS 45.
6. The objective of ED 77 is to define measurement bases and provide detailed application guidance to assist preparers in reflecting fairly the cost of services, operational capacity, and financial capacity of assets and liabilities¹. However, since guidance in ED 77 is generic, it was not

¹ ED 77 para. 1

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developed to replace existing detailed guidance in specific IPSAS. The Basis for Conclusions of ED 77² reflects the IPSASB view that initial measurement requirements in individuals' IPSAS would not be replaced by the initial measurement principles in ED 77.

7. To clarify the application of ED 77 and [draft] IPSAS 45, staff recommends:
 - (a) Revising paragraph 5 of ED 77 to reflect that when specific guidance on initial and subsequent measurement is included in the individual IPSAS, such guidance shall be applied; and
 - (b) Deleting paragraph 12 of [draft] IPSAS 45 to eliminate the circularity between ED 77 and [draft] IPSAS 45 on what guidance shall be applied on the initial measurement of property, plant, and equipment.

Decision Required

8. Does the IPSASB agree with the Staff [recommendation](#)?

² ED 77 BC21

Appendix A – Relevant excerpts from [draft] IPSAS 45 and ED 77

[Draft] IPSAS 45, Property, Plant, and Equipment - Initial Measurement

11. An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, unless it is acquired through a non-exchange transaction. Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost.

12. When measuring an item of property, plant, and equipment at recognition, an entity shall apply [draft] IPSAS [X] (ED 77).

ED 77, Measurement

Scope

3. Except as specified in paragraph 4, this [draft] Standard applies when another IPSAS requires or permits:

- (a) One or more of the measurement bases defined in this [draft] Standard or disclosures about one or more of these measurement bases; and
- (b) Measurements that are based on one or more of the measurement bases (e.g., fair value less costs of disposal) or disclosures about those measurements.

...

5. The measurement requirements described in this [draft] Standard apply to both initial and subsequent measurements.

Initial Measurement

7. On the date an item qualifies for recognition, it shall be initially measured at its transaction price, unless:

- (a) That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (see paragraphs 10–13); or
- (b) Otherwise required or permitted by another IPSAS.

Subsequent Measurement

17. After initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure an asset or liability at historical cost or at its current value. This accounting policy choice is reflected through the selection of the measurement model.

Basis for Conclusions - Amendments to Other IPSAS

BC21. The initial measurement guidance developed in [draft] IPSAS [X], ED 77, is principles-based and broadly applicable across the IPSAS suite of standards. When making amendments to other IPSAS as a result of [draft] IPSAS [X], ED 77, the IPSASB agreed the initial measurement requirements in individual IPSAS would not be replaced by the initial measurement principles in [draft] IPSAS [X], ED 77. The IPSASB concluded the more specific initial measurement guidance in specific IPSAS continues to be relevant and therefore should be retained.

Measurement Bases – Current Value Model

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommends revising the drafting in [draft] IPSAS 45, *Property, Plant, and Equipment* on how the selection of measurement basis in the current value model is made (see [Appendix A](#) for track changes):

Current Value Model (see paragraphs AG24 to AG30)

27. [New] After recognition, an entity shall apply the fair value or current operational value measurement basis to an entire class of property, plant, and equipment. The primary objective for which an entity holds an asset guides the selection of the current value measurement basis.

28. An item of property, plant, and equipment shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 39-41.

29. [Deleted]

Background

3. In June 2022, the IPSASB reviewed a comprehensive analysis of the responses to ED 78.
4. The IPSASB instructed staff to clarify and reconsider the drafting of how the decision between measurement basis in the current value model shall be made. The focus of the discussion was that the decision between measurement basis shall be based on the primary objective of why the asset is held, as opposed to a free choice.

Analysis

5. After listening to the IPSASB discussion during the June 2022 meeting, Staff revisited responses received on the specific matter for comment (SMC) 2³, noting that:
 - (a) R04 considered that a change in the current model measurement basis, for example, from current operational value to fair value, is only appropriate if there is a change in the primary objective for holding the asset.

³ Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value?

- (b) R12 stated that the choice between measurement basis should be driven by facts and circumstances, such as the reason why the asset is held.
6. [Draft] IPSAS 45 paragraph 28 states that the primary objective of why the asset is held guides the selection between fair value and current operational value. At the same time, paragraph 29 in [draft] IPSAS 45 states that a change between measurement basis is appropriate if the change results in a measurement that is more representative of the current value. These highlight an inconsistency in the guidance provided, on whether the decision is based on the primary objective of why the asset is held or if there are other criteria to be considered by the reporting entity when deciding on the measurement basis.
 7. Staff notes that [draft] IPSAS 45's application guidance further elaborates that assets held for their operational capacity are measured at current operational value (AG27), while assets held for their financial capacity are measured at fair value (AG26).
 8. Current operational value was developed to address a public sector-specific need for a measurement basis that is more representative of the current value of assets held for their operational capacity in the public sector. Specifically, respondents to ED 77 noted that it was inappropriate to apply fair value concepts of 'highest and best use' and 'maximizing the use of market participant data' for such assets⁴. Taking this into consideration, it would seem contradictory for the decision of measurement basis to be a free choice, considering the guidance included in [draft] IPSAS 45 and the reason behind the development of current operational value as a measurement basis.
 9. Even though strong support was received for SMC 2, taking into consideration the IPSASB discussion in June 2022 along with a second analysis of the responses received. Staff recommends drafting changes to the guidance, to clarify that the decision between measurement bases in the current value model is guided by the primary objective of why the asset is held. For consistency purposes with this recommendation, editorial changes are recommended across [draft] IPSAS 45, please see [Appendix A](#).

Decision Required

10. Does the IPSASB agree with the Staff [recommendation](#)?

⁴ ED 78 BC39

Appendix A – Track to [Draft] IPSAS 45 on Paragraphs Discussing Measurement Basis Selection

IPSASB members and Technical Advisors are asked to note the following when reviewing track changes:

- (a) Text changes resulting from staff recommendations are tracked (additions are underlined, deletions are strikeout, and movements are reflected in green font)
- (b) New paragraphs are numbered by adding lettering
- (c) Deleted paragraph is marked [Deleted]

Subsequent Measurement

Current Value Model ([see paragraphs AG24 to AG30](#))

[New] 27. After recognition, an entity shall apply the fair value or current operational value measurement basis to an entire class of property, plant, and equipment. The primary objective for which an entity holds an asset guides the selection of the current value measurement basis.

28. ~~After recognition, An item of property, plant, and equipment whose current value can be measured reliably~~ shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. ~~The primary objective for which an entity holds an asset guides the selection of the current value measurement basis.~~ Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 39-41.

~~[Deleted] 29. The measurement basis selected to measure current value, either fair value or current operational value, shall be applied consistently to the class of property, plant, and equipment at each measurement date. A change in the current value measurement basis, for example, from current operational value to fair value, or vice versa, is appropriate if the change results in a measurement that is more representative of the current value of the item of property, plant, and equipment.~~

Application Guidance

Subsequent Measurement

Current Value Model (Paragraphs 29-43)

AG26. Assets held with the primary objective of generating a financial return are held for their financial capacity. Holding an asset to generate a financial return indicates that an entity intends to generate positive cash inflows from the asset. Under a current value model, assets held for their financial capacity are ~~generally~~ measured at fair value.

AG27. Assets held with the primary objective of service delivery are held for their operational capacity. Holding an asset to provide services indicates that an entity intends to use the asset to achieve its service delivery objectives. Under a current value model, assets held for their operational capacity are ~~generally~~ measured at current operational value.

Basis for Conclusions

Current Value Model

Current Operational Value

BC42. However, the IPSASB concluded an item of property, plant, and equipment falling within the scope of this [draft] Standard may be held for its financial capacity and so, using the measurement hierarchy, as developed in [draft] IPSAS [X] ED 77, would typically be accounted for using the fair value measurement basis. This may be the case where a jurisdiction determines that the difference between fair value and current operational value might be material in the context of consolidation and measuring the difference between the two bases may be onerous. However, the principle of **generally** measuring assets held for their financial capacity at fair value and assets held for their operational capacity at current operational value remains appropriate and a jurisdiction may determine that no consolidation adjustments are required where assets are held for different objectives.

Heritage Assets Characteristics

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommend revising AG3(a) to "They have restrictions on their use and/or disposal."

Background

3. In June 2022, the IPSASB reviewed a comprehensive analysis of the responses to ED 78, including the specific matter for comment on whether there were additional characteristics of heritage assets, which were distinguishable from other property, plant, and equipment assets and presented complexities when applying and implementing the principles in ED 78.
4. Staff presented the responses categorized by theme, noting that the IPSASB had considered the additional characteristics suggested and the responses received did not present new information or identified public-specific issues.
5. The IPSASB instructed staff to consider expanding AG3(a) to reflect that heritage assets can also have restrictions on their disposal.

Analysis

6. Staff revisited constituents' responses received noting six requests to add 'restrictions on disposal'. R42 noted that AG3(a) should be revised to 'they have restrictions on their use or their disposal' for accuracy purposes. Additionally, two respondents suggested adding 'legal restrictions' and 'subject to special protection by legislation', which could result in restrictions on disposals of heritage assets.
7. Respondents recommended the IPSASB expand AG3(a) to state that restrictions on the use and disposal of heritage assets present complexities in their measurement. Staff recognizes that restrictions on disposal, similarly to restrictions on use, present complexities in the application and implementation of [draft] IPSAS 45 principles.
8. Heritage assets may be held for the enjoyment of the public or preserved for the benefit of future generations. This supports constituents' recommendation that heritage assets have restrictions on their disposal.
9. Staff recommends revising AG3(a) to read 'They have restrictions on their use and/or disposal', also recognizing it is the most common characteristic raised by respondents⁵ to be included in [draft] IPSAS 45 AG3.
10. Staff understands that restrictions on disposals present challenges when applying and implementing the principles in [draft] IPSAS 45, although not unique to heritage assets⁶.

⁵ 22% of respondents

⁶ ED 78 IE6

Decision Required

11. Does the IPSASB agree with the Staff [recommendation](#)?

Other Instructions from June 2022 Meeting

Question

1. Does the IPSASB agree the instructions have been appropriately addressed?

Recommendation

2. Staff recommend the below instructions be actioned as noted in paragraph 4.

Background

3. In June 2022, the IPSASB reviewed a comprehensive analysis of the responses to ED 78 and instructed Staff to make revisions as noted in June 2022 IPSASB Minutes.

Analysis

4. Staff have actioned all instructions issued by the IPSASB:

Instructions	Agenda Item 7.2.2: Re-evaluate cross-references between ED 77 and ED 78 on the selection of measurement basis;
Analysis	<p>In the June 2022 meeting, the IPSASB instructed staff to re-evaluate cross-reference in the selection of measurement basis between ED 77, <i>Measurement</i> and [draft] IPSAS 45, <i>Property, Plant, and Equipment</i>.</p> <p>Staff noted that ED 77 does not include guidance on the selection of measurement bases, rather its objective is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity, and financial capacity of assets and liabilities.</p> <p>Staff noted that [draft] IPSAS 45 includes specific guidance on the selection of measurement basis, which can be found in paragraphs AG25-AG30.</p>
Proposed Update	<i>No change is proposed.</i>

Instruction	<p>Agenda Item 7.2.3:</p> <p>Revise the drafting to enhance the clarity of the text on the possibility of having more than one class of property, plant, and equipment for the same type of property, plant, and equipment item;</p>
Analysis	<p>In the June 2022 meeting, the IPSASB instructed staff to enhance clarity on the possibility of having more than one class of property, plant, and equipment for the same nature asset, when the objectives of why the assets are held are different.</p> <p>[Draft] IPSAS 45 paragraphs 28 and 29 state that the primary reason for which an entity holds an asset guides the selection of the current measurement, which shall be applied consistently to an entire class. [Draft] IPSAS 45 paragraph 36 notes that a reporting entity can have more than one class of property, plant, and equipment for assets of similar nature but held for different functions, for example, parcels of land held for agricultural purposes versus commercial purposes. As a result, the reporting entity may be required to present information using different measurement models for each class.</p> <p>Similarly, to the possibility of having two classes of land, a reporting entity could hold a group of similar nature property, plant, and equipment assets held for different objectives, i.e., financial and operational capacity. An IG was added to reflect that a reporting entity can have more than one class of property, plant, and equipment for similar nature assets when the objective of why these are held is different.</p>

Proposed Update	<p>Implementation Guidance</p> <p>Measurement after Recognition</p> <p>Current Value Model</p> <p><u>Classes of property, plant, and equipment</u></p> <p><u>Can a reporting entity have more than one class of property, plant, and equipment for assets of similar nature, when the primary objective why these are held is different (i.e. financial capacity and operational capacity)?</u></p> <p><u>IG26. Yes. For example, a public sector hospital, with both an income-generating wing and non-income generating wing, could hold certain magnetic resonance imaging (MRI) machines for their financial capacity while others are held for their operational capacity. This may result in the entity identifying two classes of MRI machines and presenting information using fair value for one class, located in the income generating wing, and current operational value for the other class, located in the non-income generating wing.</u></p>
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Instruction	<p>Agenda Item 7.2.4:</p> <p>Revise the drafting of BC16⁷ to enhance clarity and reflect that AG3 does not include all the characteristics of heritage assets.</p>
Analysis	<p>The Basis of Conclusions, BC17, discussing June 2020's IPSASB decision on what characteristics to include for heritage and infrastructure assets was updated to reflect that these characteristics are not meant as an exhaustive list, rather are characteristics of heritage assets and infrastructure assets that distinguish these from other property, plant, and equipment assets while presenting reporting entities with complexities when applying and implementing the principles in [draft] IPSAS 45.</p>

⁷ Paragraph BC16 in ED 78 is now BC17 in [draft] IPSAS 45.

Proposed Update	<p><i>Basis for Conclusions</i></p> <p>BC17. <u>When considering what heritage and infrastructure characteristics should be included in this [draft] Standard,</u> the IPSASB decided <u>to only include</u> that the characteristics should be those that distinguish heritage and infrastructure assets from other property, plant, and equipment, <u>and which</u> while also presenting complexities in the application and implementation of this [draft] Standard's principles. On this basis, the IPSASB decided <u>to only include the following characteristics</u>:</p> <p>(a) Heritage assets are characterized as irreplaceable and having restrictions and long and sometimes indefinite useful lives; and</p> <p>(b) Infrastructure assets are characterized as networks or systems that have long useful lives.</p>
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Instruction	<p>Agenda Item 7.2.5:</p> <p>Revise the drafting to explicitly acknowledge comments received from several constituents and why these were not taken forward by the IPSASB, in the Basis for Conclusions.</p>
Analysis	<p>Some of the constituents' responses on SMC 4 were for the IPSASB to include a definition for infrastructure assets, define 'networks' and 'systems', and retain all or some of the characteristics for infrastructure assets, which were not brought forward to [draft] IPSAS 45 from IPSAS 17, <i>Property, Plant, and Equipment</i>.</p> <p>In June 2022, the IPSASB instructed Staff to consider whether the IPSASB should explicitly acknowledge in the Basis for Conclusions (BC) why these recommendations were not taken forward, such as reflecting that 'networks' and 'systems' are more than one asset.</p> <p>Staff reviewed existing BCs in [draft] IPSAS 45 noting that:</p> <ul style="list-style-type: none"> • BC16 explains that a definition for infrastructure assets was not included as these are a subset of property, plant, and equipment and the principles in [draft] IPSAS 45 would therefore apply. • BC17 reflects the IPSASB decision to update the examples of infrastructure assets and include the various assets that make up these 'networks' or 'systems'. • BC18 discusses the IPSASB decision on what characteristics should be included in [draft] IPSAS 45 for infrastructure and heritage assets. Further clarity has been added to BC17, see action for Agenda Item 7.2.4, above, that these are not the only characteristics of heritage and infrastructure assets. <p>Existing BCs reflect the IPSASB decision on these matters.</p>

Proposed Update	<i>No change is proposed to the Basis for Conclusions in ED 78.</i>
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Instruction	Agenda Item 7.2.5: Communicate the purpose of the guidance issued and set a clear expectation that the IPSASB will not be reopening it.
Analysis	The Basis of Conclusions was updated to note the purpose of the guidance issued and set a clear expectation that the IPSASB is not expected to reopen [draft] IPSAS 45 (ED 78).
Proposed Update	<u>[New] BC5. The IPSASB undertook a project to update its existing property, plant, and equipment guidance in IPSAS 17 to help constituents apply the principles to heritage and infrastructure assets. To this effect, additional, authoritative, and non-authoritative guidance was issued. The IPSASB notes that such guidance is applicable to all property, plant, and equipment and does not expect to initiate another project related to this [draft] Standard in the foreseeable future.</u>

Instruction	Agenda Item 7.2.7: Revise the drafting to shorten the authoritative guidance on the definition of an asset, AG8-AG15, in ED 78 or add a cross-reference to the definition of an asset in the Conceptual Framework.
Analysis	Staff noted that most of the content of AG8-AG15 can be found in Chapter 5 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (CF). Staff streamlined drafting, ensuring it addresses key concerns from constituents, while eliminating duplication of the CF. No cross-reference was recommended given the CF is non-authoritative material. The key topics kept are guidance on whether a heritage item is a resource and on assessment of control for both heritage assets and infrastructure items. The latter is further complemented by IGs.
Proposed Update	AG8. In the public sector, there may be uncertainty whether certain items of property, plant, and equipment meet the definition of <u>are</u> an asset <u>as defined in IPSAS 1, <i>Presentation of Financial Statements</i>. This is because to be recognized as an asset, an item of property, plant, and equipment must meet all asset three criteria, including that the item of property, plant, and equipment is a resource and presently controlled by the entity. An item of property, plant, and equipment meets the definition of an asset if it satisfies all of the following:</u> (a) <u>[Deleted]</u> (b) <u>[Deleted]</u> (c) <u>[Deleted]</u>

AG9. ~~[Deleted]~~

Resources

AG10. ~~[Deleted]~~

AG11. ~~[Deleted]~~

AG12. Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity's perspective when those services contribute to achieving the entity's service delivery and other objectives. For example, heritage items that are used purely for the benefit of the public ~~(sometimes described as "for heritage purposes")~~ can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Where an entity's objectives are to provide heritage-related services such as the appreciation and study of heritage, the entity holds heritage items to achieve those objectives and the heritage items have service potential and are resources from the entity's perspective. Similarly, infrastructure assets that are used to deliver public services (e.g. road networks or water systems) will be resources to an entity that holds them if those services contribute to achieving the entity's service delivery and other objectives.

Control of an Asset

AG13. ~~[Deleted]~~

AG14. In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:

- (a) Legal ownership;
- (b) Access to the resource, or the ability to deny or restrict others to access the resource;
- (c) The means to ensure that the resource is used to achieve its objectives; or
- (d) The existence of enforceable right to service potential or the ability to generate economic benefits arising from the resource.

An entity is more likely to demonstrate control if it satisfies most of these indicators. However, assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

AG15. No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it ~~has the ability to~~ can direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances an entity considers substance over form in determining whether it controls an asset.

Instruction	Agenda Item 7.2.9: Revise the drafting to reconcile terminology between paragraphs 36(e), AG6(a) and BC59(b) ⁸ on electricity transmission networks.
Analysis	<p>The core text and the application guidance were updated to streamline content and reconcile terminology between authoritative and non-authoritative guidance.</p> <p>Paragraph 36 in [draft] IPSAS 45 includes 'infrastructure items', 'roads' and 'electricity transmission networks' as possible asset classes of property, plant, and equipment. 'Roads' and 'electricity transmission networks' are examples of infrastructure assets, also included in AG6(a) and AG6(b). [Draft] IPSAS 45 paragraph AG6 lists a number of assets that may comprise 'Electricity power systems', 'road networks', and 'water systems'. The application guidance looks to provide further guidance to expand on the principles discussed in the core text. Therefore, paragraphs 36(c) and 36(e) have been deleted, to remove duplication between core text and application guidance.</p> <p>The word 'items' in paragraph 36(o) was deleted to reflect prior IPSASB decision, to replace the term 'tangible items' with 'tangible assets', documented in BC19 to B21. The terminology used in paragraph AG6(a) was revised from 'electricity power systems' to 'electricity transmission networks', this is consistent with the terminology used in 36(e) and BC60(b).</p>

⁸ Paragraph BC59(b) in ED 78 is now BC60(b) in [draft] IPSAS 45

Proposed Update

Core Text

37. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

- (a) Land;
- (b) Operational buildings;
- ~~(c) Roads networks;~~
- (d) Machinery;
- ~~(e) Electricity transmission networks;~~
- (f) Ships;
- (g) Aircraft;
- (h) Weapons systems;
- (i) Motor vehicles;
- (j) Furniture and fixtures;
- (k) Office equipment;
- (l) Oil rigs;
- (m) Bearer plants;
- (n) Heritage collections; and
- (o) Infrastructure ~~items~~.

When grouping property, plant, and equipment into classes, an entity may identify ~~items~~ assets with similar nature, but held for different functions, or vice versa. For example, while various parcels of land might be similar in nature, some may be held for agricultural purposes and others for commercial purposes. This may result in the entity identifying two classes of land and presenting information using historical cost for one class and current value for the other.

Application Guidance

AG6. Although not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Examples include:

- (a) Electricity transmission networks ~~power systems~~, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities;
- (b) Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and
- (c) Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps, and treatment plants.

Decision Required

5. Does the IPSASB agree with the Staff [recommendation](#)?

Approval of IPSAS 45, *Property, Plant, and Equipment*

Question

1. Does the IPSASB with Staff recommendation?

Recommendation

2. Staff recommend the IPSASB:
 - (a) Agree with IPSASB's Program and Technical Director assertion that due process has been followed effectively in developing [draft] IPSAS 45, *Property, Plant, and Equipment*;
 - (b) Vote to approve IPSAS 45, *Property, Plant, and Equipment* subject to:
 - (i) The approval of [draft] IPSAS [X] (ED 77), *Measurement*;
 - (ii) Staff to review the need for non-authoritative guidance for the valuation of heritage assets by involving the Measurement Taskforce;
 - (iii) Staff to review consistency of 'Amendments to Other IPSAS' with IPSASB's decisions in June 2022 and September 2022 and [draft] IPSAS [X] (ED 77), *Measurement*, when approved;
 - (iv) Staff to complete the comparison of IPSAS 45 with IAS 16 and GFS; and
 - (v) Staff to draft final BCs based on the decisions made at the June 2022 and September 2022 IPSASB meetings.
 - (c) For the effective date of IPSAS 45 to be aligned with the effective date of [draft] IPSAS [X] (ED 77), *Measurement*.

Due Process

3. The IPSASB released [Exposure Draft \(ED\) 78, *Property, Plant, and Equipment*](#) in April 2021, which had an exposure period of 4 months. The ED was based on:
 - (a) The IPSASB's analysis in response to its April 2017 [Heritage Consultation Paper](#);
 - (b) The IPSASB's analysis of challenges in applying IPSAS 17 to infrastructure assets identified by constituents; and
 - (c) Updates to measurement principles proposed in ED 77, *Measurement*.The IPSASB received [43 comment letters](#) and performed an initial review of the responses in December 2021 and a detailed review in June 2022.
4. After this meeting, the IPSASB will have considered all issues raised by respondents to the Property, Plant, and Equipment ED.

Approval Process

5. IPSAS 45, *Property, Plant, and Equipment* supersedes IPSAS 17, *Property, Plant, and Equipment*. The IPSASB has followed due process throughout this project. As such, the final steps in due process are noted below.

6. When the staff are satisfied a proposed final international standard is ready for approval, IPSASB's [Due Process and Working Procedures](#) sets out the necessary steps to facilitate its approval (bolded procedures require action by the IPSASB):

- (a) **Staff present the revised content of the exposed international standard to the IPSASB;**

See [Supporting Document 1](#)

- (b) **The IPSASB Program and Technical Director advises the IPSASB on whether due process has been followed effectively;**

The IPSASB Program and Technical Director asserts that due process has been followed effectively in developing [draft] IPSAS 45.

- (c) **The IPSASB confirms whether or not it is satisfied the due process has been followed effectively;**

The IPSASB Chair asks the IPSASB confirmation on due process.

- (d) **The IPSASB votes on the approval of IPSAS 45, *Property, Plant, and Equipment* in accordance with its [terms of reference](#);**

Staff recommend the approval of IPSAS 45, *Property, Plant, and Equipment*.

- (e) **The IPSASB considers whether there has been a substantial change to the exposed document such that a vote on re-exposure is necessary;**

Staff confirms that there have been no substantial changes that would require a vote on re-exposure by the IPSASB.

- (f) **The IPSASB sets the effective date of the application of IPSAS 43;**

Staff recommend the IPSASB align the effective date for IPSAS 45 with the effective date of the [draft] IPSAS [X], *Measurement*. [Draft] IPSAS [X], *Measurement*, is expected to be approved in December 2022.

Next Steps

7. The core text and application guidance will be reviewed by the editorial group in Q4 2022. During the editorial process, staff will assess the impact of the IPSASBs decisions throughout the property, plant, and equipment project (inclusive of the decisions made in the Heritage and Infrastructure projects) and update the "Amendments to Other IPSAS" Appendix.
8. Staff will complete the 'subject to' items identified in paragraph 2 during Q4 2022. Items will be available for the IPSASB to review during the December 2022 IPSASB meeting.

Decision Required

9. Does the IPSASB agree with the Staff [recommendation](#)?

Supporting Documents 1 – [draft] IPSAS 45, *Property, Plant, and Equipment*

REVIEW INSTRUCTIONS:

1. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing [draft] IPSAS 45, *Property, Plant, and Equipment*
 - (a) Numbering of paragraphs have changed compared to ED 78, this reflects prior IPSASB decisions and consequential amendments to IPSAS 45 by other IPSAS that require addition of a new or deletion of paragraphs.
 - (i) New paragraphs are marked [New]
 - (b) Text changes resulting from staff recommendations are tracked (additions are underlined, deletions are ~~strikeout~~, and movements are reflected in green font)
2. Key changes to the [draft] IPSAS 45 are as follows:

Type of Guidance	Key Topic	Change from ED 78
Core Text	<ol style="list-style-type: none"> 1. Definitions 2. Initial Measurement 3. Subsequent Measurement – Current Value Model 4. Derecognition 5. Amendments to ED 70, ED 71, and ED 72 	<ol style="list-style-type: none"> 1. No significant changes. 2. See Agenda Item 5.2.1 3. See Agenda Item 5.2.2 4. Replace cross-references to ED 70, <i>Revenue with Performance Obligations</i> with IPSAS 9, <i>Revenue from Exchange Transactions</i>. 5. Remove the proposed changes to ED 70, ED 71, and ED 72 in the Amendments to Other IPSAS section of [draft] IPSAS 45.
Application Guidance	<ol style="list-style-type: none"> 6. Consistency in terminology 7. Scope – Heritage Asset Characteristics 8. Subsequent Measurement– Current Value Model 	<ol style="list-style-type: none"> 6. Revised ‘Measurement at Recognition’ to ‘Initial Measurement’ for consistency with core text 7. See Agenda Item 5.2.3 8. See Agenda Item 5.2.2
Implementation Guidance	<ol style="list-style-type: none"> 9. Consistency in terminology 10. Subsequent Measurement (previously Measurement after Recognition) 	<ol style="list-style-type: none"> 9. Revised ‘Measurement after Recognition’ to ‘Subsequent Measurement’ for consistency with core text 10. See Agenda Item 5.2.4, June 2022 Agenda Item 7.2.3

Agenda Item 5.3.1

Basis for Conclusions	11. Replacement of IPSAS 17 12. Definition of Property, Plant, and Equipment 13. Subsequent Measurement–Current Value Model	11. See Agenda Item 5.2.4 , June 2022 Agenda Item 7.2.5 12. See Agenda Item 5.2.4 , June 2022 Agenda Item 7.2.4 13. See Agenda Item 5.2.2
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Final Pronouncement
[TBD] 202x

IPSAS®

International Public Sector Accounting Standard®

IPSAS 45, Property, Plant, and Equipment

IPSASB

International Public
Sector Accounting
Standards Board®

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In meeting this objective, the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently, all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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IPSAS 45, PROPERTY, PLANT, AND EQUIPMENT

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Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are: the recognition of the assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them.

Scope (see paragraphs AG1-AG7)

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, except when another Standard requires or permits a different accounting treatment.**
3. This Standard does not apply to:
 - (a) Biological assets related to agricultural activity other than bearer plants (see IPSAS 27, *Agriculture*). This [draft] Standard applies to bearer plants but does not apply to the produce on bearer plants;
 - (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources);
 - (c) Property, plant, and equipment classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and
 - (d) The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with measurement of exploration and evaluation assets).

However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 3(a), 3(b) and 3(d).

4. An entity using the historical cost model for investment property in accordance with IPSAS 16, *Investment Property* shall use the historical cost model in this Standard for owned investment property.

Definitions (see paragraphs AG8-AG15)

5. **Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.**

Class of property, plant, and equipment means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Property, plant, and equipment are tangible assets that:

- (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) Are expected to be used during more than one reporting period.

The **residual value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

- (a) The period over which an asset is expected to be available for use by an entity; or
- (b) The number of production or similar units expected to be obtained from the asset by an entity.

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

The following terms are defined ~~in [draft] IPSAS [X], *Measurement*~~ and are used in this Standard with the same meaning as in [draft] IPSAS [X], *Measurement*:

- (a) Current operational value;
- (b) Fair value; and
- (c) Historical cost.

The term recoverable service amount is defined in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and is used in this Standard with the same meaning as in IPSAS 21.

The term recoverable amount is defined in IPSAS 26, *Impairment of Cash-Generating Assets* and is used in this Standard with the same meaning as in IPSAS 26.

The term bearer plant is defined in IPSAS 27 and is used in this Standard with the same meaning as in IPSAS 27.

The term deemed cost is defined in IPSAS 33, *First-Time Adoption of Accrual Basis* and is used in this Standard with the same meaning as in IPSAS 33.

Recognition (see paragraphs AG16-AG20)

- 6. An item of property, plant, and equipment shall be recognized if, and only if:
 - (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) **The cost or current value of the item can be measured reliably¹.**

7. If an entity holds heritage property, plant, and equipment that meets the definition of an asset, but which does not meet the recognition criteria in paragraph 6, information as required by paragraph 79 shall be disclosed in the notes to the financial statements. When information about the cost or current value of the heritage property, plant and equipment becomes available, the entity shall, from that date, recognize the heritage property, plant, and equipment in accordance with paragraph 6 and apply the measurement principles in this Standard.
8. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value.
9. An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire, construct and/or develop an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant, and equipment, such as depreciation of right-of-use assets.
10. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition of such property, plant, and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant, and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant, and equipment qualify for recognition as assets, because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS 21 and IPSAS 26.

Initial Measurement (see paragraphs AG21-AG23)

11. **An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, unless it is acquired through a non-exchange transaction. Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost.**
- ~~12. When measuring an item of property, plant, and equipment at recognition, an entity shall apply [draft] IPSAS [X], Measurement.~~
13. For the purposes of this Standard, the measurement at recognition of an item of property, plant, and equipment, acquired at no or nominal cost, at its deemed cost consistent with the requirements of

¹ Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1, *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

paragraph 11, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 28, and the supporting Application Guidance, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods.

Elements of Cost

14. The cost of an item of property, plant, and equipment comprises:
 - (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
 - (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
 - (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
15. Examples of directly attributable costs are:
 - (a) Costs of employee benefits (as defined in IPSAS 39, *Employee Benefits*) arising directly from the acquisition, construction and/or development of the item of property, plant, and equipment;
 - (b) Costs of site preparation;
 - (c) Initial delivery and handling costs;
 - (d) Installation and assembly costs;
 - (e) Costs of testing whether the asset is functioning properly (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and
 - (f) Professional fees.
16. An entity applies IPSAS 12, *Inventories*, to the costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and this Standard are recognized and measured in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.
17. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:
 - (a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
 - (b) Initial operating losses, such as those incurred while demand for the item's output builds up; and

- (c) Costs of relocating or reorganizing part or all of the entity's operations.
18. Items may be produced while bringing an item of property, plant, and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognizes the proceeds from selling any such items, and the cost of those items, in surplus or deficit in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IPSAS 12.
 19. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.

Measurement of Cost

20. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 11, its deemed cost at the recognition date. If payment is deferred and the time value of money is material, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.
21. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at its fair value unless the exchange transaction lacks commercial substance, or the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
22. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:
 - (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
 - (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

23. The fair value of an asset is reliably measurable if the variability in the range of reasonable fair value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Subsequent Measurement (see paragraphs AG24-AG43)

24. An entity shall choose either the historical cost model in paragraph 26 or the current value model in paragraph 27 as its accounting policy and shall apply that policy to an entire class of property, plant, and equipment.
25. When the measurement requirements are applied to the item of property, plant, and equipment after recognition, an entity shall apply [draft] IPSAS [X], *Measurement*.

Historical Cost Model

26. After recognition, an item of property, plant, and equipment shall be carried at its historical cost, less any accumulated depreciation and any accumulated impairment losses.

Current Value Model (see paragraphs AG24-AG30)

27. [New] After recognition, an entity shall apply the fair value or current operational value measurement basis to an entire class of property, plant, and equipment. The primary objective for which an entity holds an asset guides the selection of the current value measurement basis.
28. After recognition, an item of property, plant, and equipment whose current value can be measured reliably shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. ~~The primary objective for which an entity holds an asset guides the selection of the current value measurement basis.~~ Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 38-40.
29. ~~[Deleted] The measurement basis selected to measure current value, either fair value or current operational value, shall be applied consistently to the class of property, plant, and equipment at each measurement date. A change in the current value measurement basis, for example, from current operational value to fair value, or vice versa, is appropriate if the change results in a measurement that is more representative of the current value of the item of property, plant, and equipment.~~
30. The current value of items of property, plant, and equipment is usually determined from market-based evidence by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification.

For some non-specialized items of property, plant, and equipment, a current value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles, and many types of plant and equipment.

31. For many public sector items of property, plant, and equipment, it may be difficult to establish their current value because of the absence of market transactions for these assets (see [draft] IPSAS [X], *Measurement*). Some public sector entities may have significant holdings of such assets.
32. The frequency of revaluations depends upon the changes in current values of the items of property, plant, and equipment being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in current value. Instead, it may be necessary to revalue the item only every three or five years.
33. When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:
 - (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
 - (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 38 and 39.

34. **If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.**
35. Impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26 do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.
36. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:
 - (a) Land;
 - (b) Operational buildings;
 - (c) ~~Roads;~~
 - (d) Machinery;
 - (e) ~~Electricity transmission networks;~~
 - (f) Ships;
 - (g) Aircraft;

- (h) Weapons systems;
- (i) Motor vehicles;
- (j) Furniture and fixtures;
- (k) Office equipment;
- (l) Oil rigs;
- (m) Bearer plants;
- (n) Heritage collections; and
- (o) Infrastructure ~~items~~.

When grouping property, plant, and equipment into classes, an entity may identify items with similar nature, but held for different functions, or vice versa. For example, while various parcels of land might be similar in nature, some may be held for agricultural purposes and others for commercial purposes. This may result in the entity identifying two classes of land and presenting information using historical cost for one class and current value for the other.

37. The items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.
38. **If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**
39. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**
40. **Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.**
41. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.
42. Guidance on the effects of taxes on surpluses, if any, resulting from the revaluation of property, plant, and equipment can be found in the relevant international or national accounting standard dealing with income taxes.

Depreciation (see paragraphs AG31-AG43)

43. **Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.**
44. A significant part of an item of property, plant, and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.
45. To the extent that an entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.
46. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.
47. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**
48. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset, and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant, and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with IPSAS 31, *Intangible Assets*.

Depreciable Amount and Depreciation Period (see paragraphs AG32-AG34)

49. **The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**
50. **The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
51. Depreciation is recognized even if the current value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed, and/or the asset tested for impairment in accordance with paragraph 62, and adjusted accordingly.
52. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Buildings generally have a finite useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

53. If the carrying amount of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a finite useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Finite and Indefinite Useful Lives (see paragraphs AG35-AG39)

54. An entity shall assess whether the useful life of property, plant, and equipment is finite or indefinite and, if finite, the length of, or number of production or similar units constituting that useful life. Land usually has an indefinite useful life. There is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. Property, plant, and equipment shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to provide service potential to, or be used to generate net cash inflows for the entity.
55. An item of property, plant, and equipment with a finite useful life is depreciated. An item of property, plant, and equipment with an indefinite useful life is not depreciated.
56. The term “indefinite” does not mean “infinite.” The useful life of property, plant, and equipment should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means that they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projections of those factors. For example, a conclusion that the useful life of property, plant, and equipment is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current standard of performance. Nor should such a conclusion depend on preservation actions for which there is no realistic likelihood under present or projected budget constraints.
57. The useful life of a property, plant, and equipment may be very long or even indefinite. Uncertainty about an asset’s useful life when it is very long does not justify choosing a life that is unrealistically short.

Annual Impairment Reviews for Assets with Indefinite Useful Lives

58. An entity is required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21 and IPSAS 26.

Depreciation Method (see paragraphs AG40-AG41)

59. **The depreciation method shall reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity.**
60. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**

Impairment

61. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

Compensation for Impairment

62. **Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.**
63. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:
- (a) Impairments of items of property, plant, and equipment are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;
 - (b) Derecognition of items of property, plant, and equipment retired or disposed of is determined in accordance with this Standard;
 - (c) Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable; and
 - (d) The cost of items of property, plant, and equipment restored, purchased, or constructed as replacement is determined in accordance with this Standard.

Derecognition

64. **The carrying amount of an item of property, plant, and equipment shall be derecognized:**
- (a) **On disposal; or**
 - (b) **When no future economic benefits or service potential is expected from its use or disposal.**
65. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 43, *Leases* requires otherwise on a sale and leaseback).**
66. However, an entity that, in the course of its activities, routinely ~~sells~~ provides items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds ~~amount of consideration~~ from the sale ~~disposal~~ of such assets shall be recognized as revenue in accordance with ~~[draft]~~ IPSAS 9[X], *Revenue from Exchange Transactions with Performance Obligations*. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.
67. The disposal of an item of property, plant, and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). In determining the ~~The~~ date of disposal of an item, an entity applies ~~of property, plant, and equipment is the date~~ the recipient obtains control of that item ~~in accordance with the requirements for determining when a performance obligation is~~

~~satisfied in [draft] IPSAS 9 for recognizing revenue from the sale of goods. [X], Revenue with Performance Obligations.~~ IPSAS 43 applies to disposal by a sale and leaseback.

68. If, under the recognition principle in paragraph 6, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired, ~~or constructed and/or developed.~~
69. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**
70. The ~~amount of~~ consideration ~~receivable on disposal to be included in the surplus or deficit arising from the derecognition of an item~~ of property, plant, and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue ~~determined~~ in accordance with ~~the requirements for determining the transaction price in paragraphs 46-71 of [draft] IPSAS 9, reflecting the effective yield on the receivable. [X], Revenue with Performance Obligations. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [X], Revenue with Performance Obligations.~~

Disclosure (see paragraphs AG44-AG45)

General Disclosure for Property, Plant, and Equipment

71. **The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:**
 - (a) **The measurement bases used for determining the gross carrying amount;**
 - (b) **The depreciation methods used;**
 - (c) **The useful lives or the depreciation rates used;**
 - (d) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**
 - (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**
 - (i) **Additions;**
 - (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**
 - (iii) **Acquisitions through public sector combinations;**
 - (iv) **Increases or decreases resulting from revaluations under paragraphs 28, 38, and 39 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

- (v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**
 - (vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**
 - (vii) **Depreciation;**
 - (viii) **The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and**
 - (ix) **Other changes.**
72. **The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:**
- (a) **The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;**
 - (b) **The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction; and**
 - (c) **The amount of contractual commitments for the acquisition of property, plant, and equipment.**
73. **If not presented separately in the statement of financial performance, the financial statements shall also disclose:**
- (a) **The amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit; and**
 - (b) **The amounts of proceeds and cost included in surplus or deficit in accordance with paragraph 18 that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.**
74. Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management, and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:
- (a) Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and
 - (b) Accumulated depreciation at the end of the period.
75. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment, such disclosure may arise from changes in estimates with respect to:
- (a) Residual values;

- (b) The estimated costs of dismantling, removing, or restoring items of property, plant, and equipment;
 - (c) Useful lives; and
 - (d) Depreciation methods.
76. **If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed in addition to the disclosures required by [draft] IPSAS [X], *Measurement*:**
- (a) **The effective date of the revaluation;**
 - (b) **Whether an independent valuer was involved;**
 - (c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**
 - (d) **The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and**
 - (e) **The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.**
77. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph 71(e)(iv)-71(e)(vi).
78. Users of financial statements may also find the following information relevant to their needs:
- (a) The carrying amount of temporarily idle property, plant, and equipment;
 - (b) The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use;
 - (c) The carrying amount of property, plant, and equipment retired from active use and not classified as held for sale in accordance with IPSAS 44.; and
 - (d) When the historical cost model is used, the current values (current operational value or fair value) of property, plant, and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment

79. Where heritage property, plant, and equipment—or class of heritage property, plant, and equipment—is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:
- (a) The difficulties in obtaining a reliable measurement that prevented recognition; and
 - (b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.
80. Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the disclosure requirements in paragraphs 71-78 will apply.

Current Value Measurement

81. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For property, plant, and equipment that are measured at current operational value or fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.**
- (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), or for recurring current operational value measurements estimated using unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

82. To meet the objectives in paragraph 81, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 81, an entity shall disclose additional information necessary to meet those objectives.

83. To meet the objectives in paragraph 81, an entity shall disclose, at a minimum, the following information for each class of property, plant, and equipment (see paragraph 84 for information on determining appropriate classes of property, plant, and equipment) measured at current operational value or fair value (including measurements based on current operational value or fair value within the scope of [draft] IPSAS [X], *Measurement, Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring current operational value or fair value measurements, the current operational value or fair value measurement at the end of the reporting period, and for non-recurring current operational value or fair value measurements, the reasons for the measurement. Recurring current operational value or fair value measurements of property, plant, and equipment are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring current operational value or fair value measurements of property, plant, and equipment are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs. For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For recurring and non-recurring current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements

estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity;

- (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring current operational value measurements estimated using unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately);
- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring current operational value estimated using unobservable inputs, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those property, plant, and equipment held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring and non-recurring current operational value measurements estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value or fair value measurements from period to period); and
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy or for recurring current operational value measurements estimated using unobservable inputs:
 - (i) For all such measurements, a narrative description of the sensitivity of the current operational value or fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower current operational value or fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the current operational value or fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the current operational value or fair value measurement. To comply with that disclosure requirement, the narrative

description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

84. An entity shall determine appropriate classes of property, plant, and equipment on the basis of the following:
- (a) The nature, characteristics and risks of the property, plant, and equipment; and
 - (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the current operational value is observable or unobservable.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of property, plant, and equipment for which disclosures about current operational value or fair value measurements should be provided requires judgment. A class of property, plant, and equipment will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for property, plant, and equipment, an entity may use that class in providing the disclosures required in this [draft] Standard if that class meets the requirements in this paragraph.

85. For each class of property, plant, and equipment not measured at current operational value or fair value in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 83 (b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using unobservable inputs, required by paragraph 83 (c). For such property, plant, and equipment, an entity does not need to provide the other disclosures required by this [draft] Standard.
86. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Transitional Provisions

87. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3 except that an entity may elect to measure heritage assets at their deemed cost when reliable cost information about the asset is not available at the date of application of this Standard. An entity may elect to use deemed cost only when the acquisition cost of the asset is not available. Deemed cost assumes that the entity had initially recognized the heritage asset at the date it assumed control.**
88. **For entities that have previously applied IPSAS 17 (2006), *Property, Plant, and Equipment* the requirements of paragraphs 21-22 regarding the initial measurement of an item of property, plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.**

Effective Date

89. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is permitted for entities that apply**

IPSAS 43, *Leases*, IPSAS 44, *Non-Current Assets Held for Sale and Discontinued Operations*, and [draft] IPSAS [X], *Measurement* at or before the date of initial application of the Standard. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.

90. When an entity adopts the accrual basis of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Withdrawal of IPSAS 17 (2006)

91. This Standard supersedes IPSAS 17 issued in 2006. IPSAS 17 remains applicable until IPSAS 45, *Property, Plant, and Equipment* is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of the IPSAS 45, Property, Plant, and Equipment.

Scope (see paragraphs 2-4)

AG1. This Standard applies to all property, plant, and equipment including:

- (a) Heritage;
- (b) Infrastructure;
- (c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*, and
- (d) Weapons systems.

Heritage Assets

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

AG3. Heritage assets typically have the following distinguishing characteristics:

- (a) They have restrictions on their use and/or disposal;
- (b) They are irreplaceable; and
- (c) They have long and sometimes indefinite useful lives.

Infrastructure Assets

AG4. Some property, plant, and equipment are described as infrastructure assets because they comprise a number of assets that make up networks or systems that serve the community at large. Generally, infrastructure assets have long lives because the number of assets that make up these networks or systems are continually maintained, replaced and refurbished. If a number of these assets were removed, the network or system may not achieve its service potential objective.

AG5. Infrastructure assets typically have the following distinguishing characteristics:

- (a) They are networks or systems; and
- (b) They have long useful lives.

AG6. Although not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Examples include:

- (a) Electricity transmission networks ~~power systems~~, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment,

emergency power backup equipment, emergency operations centers and service and maintenance facilities;

- (b) Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and
- (c) Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps, and treatment plants.

Weapons Systems

AG7. Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognized in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems.

Definitions (see paragraph 5)

Property, Plant, and Equipment as Assets

AG8. In the public sector, there may be uncertainty whether certain items of property, plant, and equipment ~~meet the definition of~~ are an asset as defined in IPSAS 1, *Presentation of Financial Statements*. This is because to be recognized as an asset, an item of property, plant, and equipment must meet all asset three criteria, including that the item of property, plant, and equipment is a resource and presently controlled by the entity. An item of property, plant, and equipment meets the definition of an asset if it satisfies all of the following:

- ~~(a) **Resource.** A resource provides benefits to an entity in the form of service potential or the ability to generate economic benefits. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource (see paragraphs AG10-AG12);~~
- ~~(b) **Control.** An entity must have control of the resource (see paragraphs AG13-AG15); and~~
- ~~(c) **Past Event.** The definition of an asset requires that a resource that an entity presently controls must have arisen from a past transaction or other past event. Past events that could indicate that an entity controls an asset include purchase from an external party, receipt by way of a donation, passing of legislation and construction or development. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means).~~

~~AG9. An item of property, plant, and equipment is recognized when it meets the definition of an asset and satisfies the recognition criteria. To satisfy the recognition criteria, it should be probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost or current value of the item can be measured reliably.~~

Resource

~~AG10. In the public sector there may be uncertainty as to whether items of property, plant, and equipment are resources because it may appear that they do not provide benefits to the reporting entity in the form of service potential and/or economic benefits. For example, an entity may hold heritage items for the purposes of providing access to the public to view heritage items, and some may view this as providing services to the public in a way that does not contribute to the reporting entity's achievement of its objectives.~~

~~AG11. A resource is an item with service potential or the ability to generate economic benefits. Economic benefits reflect the ability of an asset to generate net cash inflows. Most public sector entities hold assets primarily to deliver services rather than generate economic benefits. Service potential is the capacity of an asset to provide services that contribute to achieving an entity's service delivery and other objectives without necessarily generating net cash inflows.~~

AG12. Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity's perspective when those services contribute to achieving the entity's service delivery and other objectives. For example, heritage items that are used purely for the benefit of the public (~~sometimes described as "for heritage purposes"~~) can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Where an entity's objectives are to provide heritage-related services such as the appreciation and study of heritage, the entity holds heritage items to achieve those objectives and the heritage items have service potential and are resources from the entity's perspective. Similarly, infrastructure assets that are used to deliver public services (e.g., road networks or water systems) will be resources to an entity that holds them if those services contribute to achieving the entity's service delivery and other objectives.

Control of an Asset

~~AG13. An entity controls the resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.~~

AG14. In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:

- (a) Legal ownership;
- (b) Access to the resource, or the ability to deny or restrict others to access the resource;
- (c) The means to ensure that the resource is used to achieve its objectives; or
- (d) The existence of enforceable right to service potential or the ability to generate economic benefits arising from the resource.

An entity is more likely to demonstrate control if it satisfies most of these indicators. However, assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

AG15. No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can ~~has the ability to~~ direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely,

an entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances, an entity considers substance over form in determining whether it controls an asset.

Recognition (see paragraphs 6-10)

Spare Parts, Stand-By Equipment, and Servicing Equipment

AG16. Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this Standard when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory (see IPSAS 12, *Inventories*).

Subsequent Costs

- AG17. Under the recognition principle in paragraph 7, an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of property, plant, and equipment.
- AG18. Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building. Under the recognition principle in paragraph 7, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 65-71).
- AG19. A condition of continuing to operate an item of property, plant, and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired, constructed and/or developed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Subsequent Costs on Unrecognized Heritage Property, Plant, and Equipment

- AG20. An entity recognizes subsequent expenditure on heritage property, plant, and equipment in accordance with the recognition principle in paragraph 7. Recognition of such subsequent expenditure as an asset is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. If the subsequent expenditure relates to heritage property, plant, and equipment, that was not recognized initially, because its cost or current value

could not be measured reliably, it should nonetheless be reviewed in light of paragraph 7 to determine whether or not it meets the recognition principle and should be recognized as an asset.

Initial Measurement at Recognition (see paragraphs 11-13)

Elements of Cost

AG21. Examples of costs that are not costs of an item of property, plant, and equipment are:

- (a) Costs of opening a new facility;
- (b) Costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) Costs of conducting an operation in a new location or with a new class of purchasers (including costs of staff training);
- (d) Administration and other general overhead costs; and
- (e) Costs of day-to-day servicing or repairs and maintenance.

AG22. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, *Borrowing Costs*, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.

AG23. Bearer plants are accounted for in the same way as self-constructed items of property, plant, and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Subsequent Measurement (see paragraphs 24-63)

Current Value Model (Paragraphs 27-42)

AG24. After recognition, an item of property, plant, and equipment whose current value can be measured in a faithfully representative manner may be carried at a revalued amount, being its:

- (a) Current operational value; or
- (b) Fair value;

at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Financial and Operating Capacity

AG25. The primary objective for which an entity holds an asset is an important consideration when selecting a current value measurement basis. Assets held for their:

- (a) Financial capacity provide an entity with the means to fund its activities. This requires information on the amount that would be received on the sale of the asset or in the revenue it generates in use; and
 - (b) Operating capacity support the provision of services in future periods through physical and other resources. This requires information on the value of the asset as it is currently used by the entity.
- AG26. Assets held with the primary objective of generating a financial return are held for their financial capacity. Holding an asset to generate a financial return indicates that an entity intends to generate positive cash inflows from the asset. Under a current value model, assets held for their financial capacity are **generally** measured at fair value.
- AG27. Assets held with the primary objective of service delivery are held for their operational capacity. Holding an asset to provide services indicates that an entity intends to use the asset to achieve its service delivery objectives. Under a current value model, assets held for their operational capacity are **generally** measured at current operational value.
- AG28. In certain instances, an asset may generate a financial return although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis.
- AG29. In other instances, an asset may generate a financial return and also be used for service delivery purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities).
- AG30. In some cases, it may not be clear whether the intended primary objective of holding an asset is for its financial or operating capacity. Judgment is needed. An entity develops criteria so that it can exercise judgment consistently in concluding whether an asset is held primarily for its financial or operating capacity. When the intended primary objective of holding an asset cannot be determined, given the overall objectives of most public sector entities, the presumption is that assets are held for their operational capacity.

Depreciation (see paragraphs 43-60)

- AG31. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, it may be required to depreciate separately the substructure and the surface of a road. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft. If an entity acquires property, plant, and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

Depreciable Amount and Depreciation Period (see paragraphs 49-53)

- AG32. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount.

- AG33. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.
- AG34. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

Finite and Indefinite Useful Lives (see paragraphs 54-57)

- AG35. The useful lives of property, plant, and equipment, including buildings, are generally finite. However, there are circumstances in which property, plant, and equipment could have an indefinite useful life. For example, a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset could be considered to have an indefinite useful life, so long as those conditions continue to apply.
- AG36. Given the history of rapid changes in technology, it will often be the case that computers and other property, plant, and equipment susceptible to technological obsolescence have short useful lives. Expected future reductions in the selling price of an item that was produced using property, plant, and equipment could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.
- AG37. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Another example of land with a finite useful life is when land is being encroached by rising sea levels with the result that the entity expects that, within a finite period of time, the land will no longer be useable due either to a severe and continual risk of regular flooding or actual submersion beneath the water.
- AG38. An entity that controls land that is being consumed as a result of, for example, mining or quarrying activities will need to consider the period over which economic benefits or service potential are expected to be derived from, and the effect of, carrying out those activities on the value of the land to determine the appropriate depreciable period and amount.
- AG39. Where land is being lost or displaced as a result of, for example, coastline erosion, the entity will need to apply:
- (a) The derecognition requirements in paragraphs 65-71 of this Standard; or
 - (b) The impairment requirement in IPSAS 21 or IPSAS 26 depending on the circumstances.

Depending on the factors associated with the loss or displacement of land, an entity may need to consider the appropriateness of depreciating the land in future reporting periods, and should continue to assess for impairment in accordance with the requirements of this Standard.

Depreciation Method (see paragraphs 59-60)

- AG40. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
- AG41. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits or service potential of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

Depreciation – Useful Life of an Asset

- AG42. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset. However, economic, political, social, and legal factors may also affect the useful life. Technical or commercial obsolescence and wear and tear while an asset remains idle may also result in the diminution of the economic benefits or service potential that might otherwise have been obtained from the asset. The useful life is the shorter of the periods identified through consideration of these factors. Consequently, the following factors are considered in determining the useful life of an asset:
- (a) Expected usage of the asset, which is assessed by reference to the asset's expected capacity or physical output;
 - (b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle;
 - (c) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;
 - (d) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset;
 - (e) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases;

PROPERTY, PLANT, AND EQUIPMENT

- (f) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
- (g) The stability of the industry in which the asset operates and changes in the market or government and service recipients' demand for the products or services output from the asset;
- (h) Expected actions by competitors or potential competitors; and
- (i) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

AG43. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment when Cost or Current Value Cannot be Measured Reliably (see paragraphs 79-80)

- AG44. The disclosures identified in paragraph 79 for unrecognized heritage property, plant, and equipment should ensure that, when read in the context of information about recognized property, plant, and equipment, the financial statements provide useful and relevant information about the entity's overall holding of property, plant, and equipment, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.
- AG45. These disclosures may be presented in aggregate for groups or classes of property, plant, and equipment, provided this aggregation does not obscure significant information.

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 7, 92, 94, 101, 125C, 134, and 148 are amended. Paragraph 153R is added. New text is underlined, and deleted text is struck through.

Definitions

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

...

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

The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests. Types of reserves include:

- (a) Changes in revaluation surplus (see IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*);
- (b) Remeasurements of defined benefit plans (see IPSAS 39, *Employee Benefits*);
- (c) Gains and losses arising from translating the financial statements of a foreign operation (see IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*);
- (d) Gains and losses from investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41, *Financial Instruments*;
- (e) Gains and losses on financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41;
- (f) The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 (see paragraphs 113-155 of IPSAS 41);
- (g) For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 108 of IPSAS 41);
- (h) Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see paragraphs 113-155 of IPSAS 41); and
- (i) Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see paragraphs 113-155 of IPSAS 41).

Information to be Presented on the Face of the Statement of Financial Position

...

92. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 45.

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

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94. The detail provided in subclassifications depends on the requirements of IPSAS and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:
- (a) Items of property, plant, and equipment are disaggregated into classes in accordance with IPSAS 45 ;
 - (b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments, and other amounts;
 - (c) Inventories are subclassified in accordance with IPSAS 12, *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress, and finished goods;
 - (d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;
 - (da) Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;
 - (e) Provisions are disaggregated into provisions for employee benefits and other items; and
 - (f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

Surplus or Deficit for the Period

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101. Other IPSASs deal with items that may meet definitions of revenue or expense set out in this Standard but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see ~~IPSAS 47~~ IPSAS 45), particular (a) gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4), and (b) gains or losses on remeasuring financial assets measured at fair value through net assets/equity (guidance on measurement of financial assets can be found in IPSAS 41).

Statement of Changes in Net Assets/Equity

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- 125C. Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with ~~IPSAS 47~~ IPSAS 45 or IPSAS 31 or on remeasurements of defined benefit plans recognized in accordance with IPSAS 39. These components are recognized in net assets/equity and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated surpluses or deficits in subsequent periods as the asset is used or when it is derecognized (see ~~IPSAS 47~~ IPSAS 45 or IPSAS 31). In accordance

with IPSAS 41, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of net assets/equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Disclosure of Accounting Policies

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134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies the fair value or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSASs specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, ~~IPSAS 17~~ IPSAS 45 requires disclosure of the measurement bases used for classes of property, plant, and equipment. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

...

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other IPSASs. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 30 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. ~~IPSAS 17~~ IPSAS 45 requires disclosure of ~~significant assumptions~~ measurement techniques and inputs applied in ~~estimating~~ measuring fair values and current operational values of revalued items of property, plant, and equipment.

Effective date

153R. Paragraphs 7, 92, 94, 101, 125C, 134, and 148 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended. Paragraph 63K is added. New text is underlined, and deleted text is struck through.

Operating Activities

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22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

- (a) Cash receipts from taxes, levies, and fines;
- (b) Cash receipts from charges for goods and services provided by the entity;
- (c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;
- (d) Cash receipts from royalties, fees, commissions, and other revenue;
- (da) Cash payments to beneficiaries of social benefit schemes;
- (e) Cash payments to other public sector entities to finance their operations (not including loans);
- (f) Cash payments to suppliers for goods and services;
- (g) Cash payments to and on behalf of employees;
- (h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;
- (i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
- (j) Cash receipts and payments from contracts held for dealing or trading purposes;
- (k) Cash receipts or payments from discontinuing operations; and
- (l) Cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in ~~paragraph 62 of IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

Effective Date

63K. **Paragraph 22 was amended by IPSAS 45 issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS 45 at the same time.**

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

Paragraph 22 is amended. Paragraph 59E is added. New text is underlined, and deleted text is struck through.

...

Changes in Accounting Policies

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22. The initial application of a policy to revalue assets in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*, or IPSAS 31, *Intangible Assets*, is a change in accounting policy to be dealt with as a revaluation in accordance with ~~IPSAS 17~~ IPSAS 45 or IPSAS 31, rather than in accordance with this Standard.

Effective Date

- 59E. Paragraph 22 was amended by IPSAS 45 issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

...

Implementation Guidance

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Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

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- IG14. During 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the ~~revaluation~~ current value model.
- IG15. In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their ~~fair-current operational~~ values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.
- IG16. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller component approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a historical cost model to a ~~revaluation~~ current value model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

...

Extracts from Notes to the Financial Statements

1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the ~~revaluation~~ current value model. Management takes the view that this policy provides

faithfully representative and more relevant information, because it deals more accurately with the components of property, plant, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly, the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant, and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.

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

Paragraphs 28 and 36 are amended. Paragraph 71G is added. New text is underlined, and deleted text is struck through.

...

Reporting at Subsequent Reporting Dates

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28. The carrying amount of an item is determined in conjunction with other relevant IPSASs. For example, property, plant, and equipment may be measured in terms of fair value or current operational value or historical cost in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value or current operational value, if the amount is determined in a foreign currency, it is then translated into the functional currency in accordance with this Standard.

Recognition of Exchange Differences

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36. Other IPSASs require some gains and losses to be recognized directly in net assets/equity. For example, ~~IPSAS 17~~ IPSAS 45 requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

Effective Date

- 71G. Paragraphs 28 and 36 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

Illustrative Examples

Foreign Currency Transactions and Advance Consideration

...

- IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognizes the non-monetary asset and recognizes the machine as property, plant, and equipment applying ~~IPSAS~~

~~47~~IPSAS 45. On initial recognition of the machine, Entity A recognizes the cost of the machine using the exchange rate at the date of the transaction, which is April 1 20X1 (the date of initial recognition of the non-monetary asset).

...

Amendments to IPSAS 5, Borrowing Costs

No amendments to IPSAS 5. Amendments to non-authoritative guidance that accompanies the Standard are shown. New text is underlined, and deleted text is struck through.

Illustrative Examples

...

Scope

...

Example 1 Transaction Where the Other Party Provides Goods and Services

...

Case A—Vehicle is Provided to the International Organization

...

IE5. The binding arrangement does not give rise to a transfer expense, as the international organization receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The international organization applies ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle.

...

Example 3 Transaction with Components Within the Scope of Other IPSAS

...

IE14. The transfer of the vehicle to the not-for-profit organization is a transfer expense, as the local government transfers part of the consideration to the dealer without directly receiving any goods or services in return. The transfer of the vehicle to the local government is not a transfer expense, as the local government receives the vehicle in return for part of the consideration. The local government applies ~~IPSAS 17~~IPSAS 45 in accounting for the purchase of the vehicle it receives.

IE15. Paragraph 7(a) of [draft] IPSAS [X] (ED 72) requires an entity to first apply the separation and/or measurement requirements in other Standards if those other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement. ~~IPSAS 17~~IPSAS 45 does not specify how to separate and/or initially measure one or more parts of the binding arrangement. Consequently, the local government applies the requirements in [draft] IPSAS [X] (ED 72) to separate and/or initially measure the two parts of the binding arrangement, in accordance with paragraph 7(b) of [draft] IPSAS [X] (ED 72).

Amendments to IPSAS 9, Revenue from Exchange Transactions

Paragraph 10 is amended. New text is underlined, and deleted text is struck through.

Scope

...

10. This Standard does not deal with revenue arising from:

- (c) Gains from the sale of property, plant, and equipment (which are dealt with in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*);

Effective Date

41F. Paragraph 10(c) was amended by IPSAS 45 issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

Amendments to IPSAS 12, *Inventories*

Paragraph 14A is amended. Paragraph 51J is added. New text is underlined, and deleted text is struck through.

...

Inventories

...

14A. Military inventories consist of single-use items, such as ammunition, missiles, rockets and bombs delivered by weapons or weapons systems. However, some types of missiles may be accounted for in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, if they satisfy the criteria to be classified in that standard.

Effective Date

51J. Paragraph 14A was amended by IPSAS 45 issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 85, 86, 89, and 90 are amended. Paragraph 101L is added. New text is underlined, and deleted text is struck through.

...

Scope

...

6. This Standard does not apply to:

- (a) Biological assets related to agricultural activity (see IPSAS 27, *Agriculture* and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*); and

- (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

Classification of Property as Investment Property or Owner-Occupied Property

...

- 10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. ~~IPSAS 17~~IPSAS 45 applies to owner-occupied property.

...

- 13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
 - (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.
 - (b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).
 - (c) Owner-occupied property (see ~~IPSAS 17~~IPSAS 45, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
 - (d) [Deleted]
 - (e) Property that is leased to another entity under a finance lease.
 - (f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with ~~IPSAS 17~~IPSAS 45.
 - (g) Property held for strategic purposes which would be accounted for in accordance with ~~IPSAS 17~~IPSAS 45.

...

19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, the property would be accounted for as property, plant, and equipment in accordance with ~~IPSAS 47~~IPSAS 45.

Measurement at Recognition

...

33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to initial recognition, to adopt either the fair value model (paragraphs 42-64) or the historical cost model (paragraph 65).

...

Measurement after Recognition

Accounting Policy

39. **With the exception noted in paragraph 43, an entity shall choose as its accounting policy either the fair value model in paragraphs 42-64 or the historical cost model in paragraph 65, and shall apply that policy to all of its investment property.**
40. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the historical cost model will result in a more relevant presentation.
41. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

....

Inability to Determine Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the historical cost model in ~~IPSAS 47~~IPSAS 45. The residual value of the investment property shall be assumed to be zero. The entity shall apply ~~IPSAS 47~~IPSAS 45 until disposal of the investment property.**
- 62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the historical cost model in accordance with ~~IPSAS 47~~IPSAS 45.
- ...
63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the historical cost model in accordance with ~~IPSAS 47~~IPSAS 45, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the historical cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure all of its investment property in accordance with ~~IPSAS 47~~IPSAS 45's requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.**

Transfers

- ...
70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the historical cost model, transfers between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

71. For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 12, shall be its fair value at the date of change in use.
72. If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply ~~IPSAS 17~~IPSAS 45 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with ~~IPSAS 47~~IPSAS 45, and its fair value in the same way as a revaluation in accordance with ~~IPSAS 47~~IPSAS 45.
73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property and recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with ~~IPSAS 17~~IPSAS 45, and its fair value in the same way as a revaluation in accordance with ~~IPSAS 17~~IPSAS 45. In other words:

Disposals

...

79. If, in accordance with the recognition principle in paragraph 20, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the historical cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases, it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

Disclosure

Fair Value Model and Historical Cost Model

85. The disclosures below apply in addition to those in IPSAS 13. In accordance with IPSAS 13, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.
86. **An entity shall disclose:**
 - (a) **Whether it applies the fair value or the historical cost model;**
 - (b) **If it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;**

- (c) When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;
- (d) The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;
- (e) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;
- (f) The amounts recognized in surplus or deficit for:
 - (i) Rental revenue from investment property;
 - (ii) Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
 - (iii) Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.
- (g) The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and
- (h) Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.

...

89. In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in ~~IPSAS 17~~IPSAS 45, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

...

Historical Cost Model

90. In addition to the disclosures required by paragraph 86, an entity that applies the historical cost model in paragraph 65 shall disclose:
- (a) The depreciation methods used;
 - (b) The useful lives or the depreciation rates used;
 - (c) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
 - (d) The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

PROPERTY, PLANT, AND EQUIPMENT

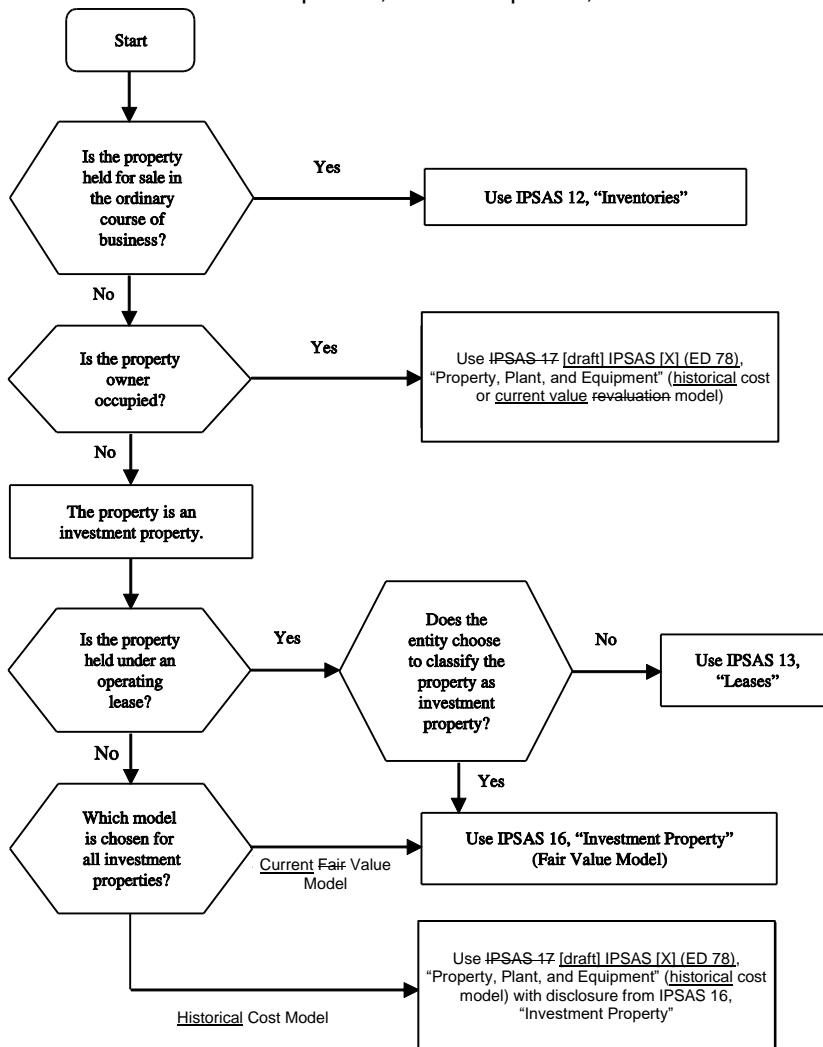
- (i) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;**
- (ii) **Additions resulting from acquisitions through public sector combinations;**
- (iii) **Disposals;**
- (iv) **Depreciation;**
- (v) **The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;**
- (vi) **The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**
- (vii) **Transfers to and from inventories and owner-occupied property; and**
- (viii) **Other changes; and**
- (e) **The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot determine the fair value of the investment property reliably, the entity shall disclose:**
 - (i) **A description of the investment property;**
 - (ii) **An explanation of why fair value cannot be determined reliably; and**
 - (iii) **If possible, the range of estimates within which fair value is highly likely to lie.**

Effective Date

101L. Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 85, 86, 89, and 90 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 16.



Comparison with IAS 40

IPSAS 16 is drawn primarily from IAS 40 (2003), *Investment Property* and includes amendments made to IAS 40 as part of the *Improvements to IFRSs* issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 4, *Insurance Contracts*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issue of those IFRSs. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service that also generates cash inflows. Such property is accounted for in accordance with ~~IPSAS 17~~IPSAS 45.
- IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 16. IAS 40 only contains transitional provisions for entities that have already used IFRSs. IFRS 1 deals with first time adoption of IFRSs. IPSAS 16 includes additional transitional provisions that specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits.
- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant example is the use of the term “statement of financial performance” in IPSAS 16. The equivalent term in IAS 40 is “income statement.”
- IPSAS 16 does not use the term “income” which in IAS 40 has a broader meaning than the term “revenue.”

Amendments to IPSAS 18, *Segment Reporting*

Paragraph 37 is amended. Paragraph 76H is added. New text is underlined, and deleted text is struck through.

...

Segment Assets, Liabilities, Revenue, and Expense

...

37. IPSAS 40 may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an operation acquired in an acquisition. Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an operation acquired in an acquisition, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's separate or the controlled entity's individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, measurements of segment assets reflect those revaluations.

Effective Date

...

- 76H. Paragraph 37 was amended by IPSAS 45 issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 27 is amended. Paragraph 111O is added. New text is underlined, and deleted text is struck through.

...

Past Event

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27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognized as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a public sector entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that public sector entity. Similarly, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused. ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, deals with items, including dismantling and site restoring costs, that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to

carry out expenditure to operate in a particular way in the future. An example would be where a public sector entity decides to fit emission controls on certain of its vehicles, or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions – for example, by changing their method of operation – they have no present obligation for that future expenditure, and no provision is recognized.

Effective Date

...

1110. Paragraph 27 was amended by IPSAS 17IPSAS 45 issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies this amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS 17IPSAS 45 at the same time.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 19.

...

Repairs and Maintenance

IG16. Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. ~~IPSAS 17~~IPSAS 45 gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

...

Amendments to IPSAS 21, Impairment of Non-Cash-Generating Assets

Paragraphs 12, 54, 54A, 69, 69A and 75 are amended. Paragraph 82M is added. New text is underlined, and deleted text is struck through.

...

Scope

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12. Consistent with the requirements of paragraph 5 above, items of property, plant, and equipment that are classified as cash-generating assets, including those that are carried at revalued amounts under the allowed alternative treatment in ~~IPSAS 17~~IPSAS 45, are dealt with under IPSAS 26.

Recognizing and Measuring an Impairment Loss

...

54. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 and IPSAS 31).**

Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

- 54A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45.

Reversing an Impairment Loss

...

69. **A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**
- 69A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or ~~IPSAS 17~~IPSAS 45.

Disclosure

...

75. The information required in paragraph 73 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment, at the beginning and end of the period, as required by ~~IPSAS 17~~IPSAS 45.

Effective Date

...

- 82M. Paragraphs 12, 54, 54A, 69, 69A, and 75 were amended by IPSAS 45 *Property, Plant, and Equipment*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.**

...

Basis for Conclusions

...

Property, Plant, and Equipment and Intangible Assets

BC17. When this Standard was issued ~~At the time this Standard was approved~~ in December 2004, it did not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the revaluation model in IPSAS 17 and IPSAS 31. The IPSASB was then of the view that under the revaluation model in IPSAS 17 and IPSAS 31, assets would be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date, and any impairment would be taken into account in the valuation. Therefore, any difference between the asset's carrying amount and its fair value less costs to sell would be the disposal costs. The IPSASB was then of the view that, in most cases, these would not be material and, from a practical viewpoint, it was not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

...

BC19. Firstly, there are different methods of determining recoverable service amount under this Standard, and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches may also be adopted to measure fair value under IPSAS 17 and IPSAS 31 and therefore the value in use is a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs to sell and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.

...

Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)

...

BC20B. When this Standard was issued, The the IPSASB had considered that the rationale in paragraphs BC19 and BC20 for the different requirements in IPSAS 21 and IAS 36 remained sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as required by paragraph 44 of IPSAS 17 and fair value as required by paragraph 74 of IPSAS 31. In developing IPSAS 45, the IPSASB concluded that the same impairment principles should apply when revaluing assets to current operational value, as required by paragraph 27 of IPSAS 45.

BC20C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they are accounted for in a similar

manner. Paragraph 51 of IPSAS 17 had ~~required~~ an entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

...

Responses to ED 57

BC20H. The majority of the respondents to ED 57 had supported the proposals and the IPSASB's rationale. When this Standard was issued, the ~~The~~ IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17. In developing IPSAS 45, the IPSASB concluded that the same statement should be retained.

...

BC20J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they ~~are~~ were conceptually the same. However, there ~~is~~ was a practical difference. Impairments ~~were~~ are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference ~~is~~ was reflected in the statement in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

...

Reversal of Impairment

BC25. Paragraph 27(c) includes "Evidence is available of physical damage of an asset" as a minimum indication of impairment. Paragraph 60 does not include an indication of reversal of impairment that mirrors this indication of impairment. When this Standard was issued, the ~~The~~ IPSASB ~~had~~ not included repair of an asset as an indication of reversal, because IPSAS 17 ~~required~~ entities to add subsequent expenditure to the carrying amount of an item of property, plant, and equipment when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained. This requirement also ~~applied~~ to investment property that ~~was~~ is measured using the cost model under IPSAS 16. The IPSASB is of the view that these requirements negate the need for an indication of reversal of impairment that mirrors the physical damage indication of impairment. The IPSASB also noted that restoration or repair of damage does not constitute a change in the estimate of the asset's recoverable service amount after impairment as specified by paragraph 65 of this IPSAS. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the cost

model in IPSAS 17 is labeled the historical cost model in IPSAS 45 and that label consequentially applies in IPSAS 16.

...

Revision of IPSAS 21 as a result of *Improvements to IPSAS, 2019*

BC27. When this Standard was issued ¶the reference to “class of assets” in paragraphs 54A and 69A had created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17, *Property, Plant, and Equipment*. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31 and class of assets in the scope of IPSAS 17. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

Comparison with IAS 36 (2004)

IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 (2004) are as follows:

- IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities, while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS 26 deals with the impairment of cash-generating assets of public sector entities.
- IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the current value model in ~~IPSAS 17~~IPSAS 45. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.
- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.
- The scope of IAS 36 excludes certain classes of assets that are not excluded from the scope of IPSAS 21. These exclusions relate to classes of assets that are the subject of specific impairment requirements under other IFRSs. These have not been excluded from IPSAS 21 because there are not equivalent IPSASs. These exclusions include (a) biological assets related to agricultural activity, (b) deferred tax assets, (c) deferred acquisition costs, (d) intangible assets arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4, *Insurance Contracts*, and (e) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.
- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- IPSAS 21 deals with corporate assets in the same manner as other non-cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.
- IPSAS 21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue," "recoverable service amount", and "statement of financial performance," in IPSAS 21. The equivalent terms in IAS 36 are "income," "recoverable amount," and "income statement."

Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraphs 73, 73A, 108, 108A, and 118 are amended. Paragraph 126O is added. New text is underlined, and deleted text is struck through.

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Recognizing and Measuring an Impairment Loss

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73. An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, Property, Plant, and Equipment and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

73A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45.

...

Reversing an Impairment Loss for an Individual Asset or Class of Asset

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108. A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the ~~revaluation~~current value model in IPSAS 45 and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.

108A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or ~~IPSAS 17~~IPSAS 45.

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Disclosure

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118. The information required in paragraph 115 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment at the beginning and end of the period, as required by ~~IPSAS 17~~IPSAS 45.

Effective Date

126O. Paragraphs 73, 73A, 108, 108A, and 118 were amended by IPSAS 45 issued in Month YYYY.

An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

Basis for Conclusions**Development of IPSAS 26 Based on the IASB's Revised Version of IAS 36 Issued in 2004**

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Need for this Standard

BC3. When this Standard was issued, IPSAS 21 had referred readers to IAS 36 (a) in order to establish whether cash- generating assets have been impaired, and (b) for accounting for the recognition and measurement of any impairment. There ~~are~~ were benefits in incorporating requirements and guidance on the impairment of cash-generating assets in an IPSAS, so that public sector entities do not have to refer to IAS 36 when an entity has cash-generating assets. In addition, there ~~are~~ were a number of public sector issues related to impairment. These included:

- (a) Whether cash-generating property, plant, and equipment carried in accordance with the revaluation model in IPSAS 17, *Property, Plant, and Equipment* should be within the scope;
- (b) Distinguishing cash-generating and non-cash-generating assets;
- (c) The redesignation of cash-generating assets to non-cash-generating assets and vice-versa; and
- (d) The treatment for impairment purposes of non-cash-generating assets in cash-generating units.

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that the identified relationship still applies for issue (a) above.

Exclusion of Property, Plant, and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope

BC4. When this Standard was issued, ~~At the time this Standard was approved~~ in February 2008, the scope of IPSAS 21 had excluded non cash-generating property, plant, and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 had stated that the IPSASB was of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17—would be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date, and (b) that any impairment will be taken into account in that valuation. The IPSASB therefore had considered whether a similar scope exclusion should be included in this Standard.

BC5. The IPSASB had acknowledged that property, plant, and equipment held on the revaluation model ~~are~~ were within the scope of IAS 36, and had considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB had noted that in IAS 36, in cases where the fair value of an item of property, plant, and equipment is its market value, the maximum amount of an impairment loss ~~is~~ was the disposal costs. In the Basis for Conclusions for IPSAS 21, it ~~is~~ was stated that “the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not

necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset.” The IPSASB had considered that disposal costs are also unlikely to be material for cash-generating assets. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

...

BC7. When this Standard was issued, the IPSASB ~~had been~~ was of the view that it would be onerous to impose a requirement to test for impairment in addition to the then existing requirement in IPSAS 17, i.e., that assets ~~will~~ would be revalued with sufficient regularity to ensure that they ~~are~~ were carried at an amount that ~~is~~ would not ~~be~~ materially different from their fair value at the reporting date. Therefore, on balance, the IPSASB had concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36, and that property, plant, and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant, and equipment, intangible assets that ~~are~~ were regularly revalued to fair value ~~were~~ would also ~~be~~ excluded from the scope. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that current operational value can be applied instead of fair value and the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

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Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)

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BC7B. When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC5 and BC6 for the different requirements in IPSAS 26 and IAS 36 ~~is~~ was sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as was required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31.

BC7C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they ~~are~~ were accounted for in a similar manner. Paragraph 51 of IPSAS 17 ~~required~~ the entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class ~~is~~ was revalued. Therefore, if impairment losses and reversals of impairment losses ~~are~~ were interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this reasoning and consideration are still applicable.

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Responses to ED 57

BC7H. The majority of respondents to ED 57 supported the proposals and the IPSASB's rationale. The IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17.

...

BC7J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they are conceptually the same. However, there ~~is~~ was a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference ~~is~~ was reflected in paragraph 51A of IPSAS 17 that “impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.” In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable.

...

Revision of IPSAS 26 as a result of *Improvements to IPSAS, 2019*

BC21. When this Standard was issued the IPSASB had noted that T~~the~~ reference to “class of assets” in paragraphs 73A and 108A created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31, *Intangible Assets* and class of assets in the scope of IPSAS 17. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable.

Comparison with IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- IPSAS 26 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the ~~revaluation~~ current value model in ~~IPSAS 17[draft]~~ IPSAS [X] (ED 78, *Property, Plant, and Equipment*). IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.
- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs to sell. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the re designation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.
- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue" and "statement of financial performance." The equivalent terms in IAS 36 are "income" and "income statement."

Amendments to IPSAS 23, *Revenue From Non-Exchange Transactions (Taxes and Transfers)*

Paragraphs 13, 43, 83, BC16 and IG23 are amended. New text is underlined, and deleted text is struck through.

Definitions

Revenue

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13. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with ~~IPSAS 17~~ IPSAS 45, Property, Plant, and Equipment.

Recognition of Assets

Measurement of Assets on Initial Recognition

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43. Consistent with IPSAS 12, Inventories, IPSAS 16, Investment Property, ~~IPSAS 17~~ IPSAS 45, Property, Plant, and Equipment and IPSAS 41, Financial Instruments, assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition.

Transfers

Measurement of Transferred Assets

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83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and ~~IPSAS 17~~ IPSAS 45. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

Effective Date

- 124l. Paragraphs 13, 43, 83, BC16, and IG23 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

Basis for Conclusions

Measurement of Assets

BC16. This Standard requires that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. The IPSASB is of the view that this is appropriate to reflect the substance of the transaction and its consequences for the recipient. In an exchange transaction, the cost of acquisition is a measure of the fair value of the asset acquired. However, by definition, in a non-exchange transaction the consideration provided for the acquisition of an asset is not approximately equal to the fair value of the asset acquired. Fair value most faithfully represents the actual value the public sector entity accrues as a result of the transaction. Initial measurement of assets acquired through non-exchange transactions at their fair value is consistent with the approach taken in IPSAS 16, *Investment Property*, and ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and ~~IPSAS 17~~ to fully align those IPSASs with the requirements of this Standard.

Implementation Guidance

Transfer to a Public Sector University with Restrictions (paragraphs 19 and 76)

IG23. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with ~~IPSAS 17~~ IPSAS 45. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3, 4, 6, and 37 are amended. Paragraph 56J is added. New text is underlined, and deleted text is struck through.

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Scope

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3. This Standard does not apply to:
 - (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*);
 - (b) Bearer plants related to agricultural activity (see ~~IPSAS 17~~ IPSAS 45). However, this Standard applies to the produce on those bearer plants.
 - (c) Intangible assets related to agricultural activity (see IPSAS 31, *Intangible Assets*); and
 - (d) Biological assets held for the provision or supply of services.

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4. Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph 9 of this Standard, those biological assets are not accounted for in accordance with this Standard. Where those biological assets meet the definition of an asset, other IPSASs should be considered in determining the appropriate accounting (e.g., IPSAS 12, *Inventories* and ~~IPSAS 17~~IPSAS 45).

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6. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation forest	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil Palms	Picked fruit	Palm Oil
Rubber trees	Harvested latex	Rubber products
Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IPSAS 17 IPSAS 45. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IPSAS 27.		

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Inability to Measure Fair Value Reliably

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37. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IPSAS 12, ~~IPSAS 17~~IPSAS 45, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.

Effective Date

56J. Paragraphs 3, 4, 6, and 37 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

...

Basis for Conclusions

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Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

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BC9. When this Standard was issued, in analyzing approach 3, the IPSASB had considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. IPSAS 23.13 states that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs were ~~are~~ included in the amount recognized as an asset, in accordance with IPSAS 17." In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable. This implies that for other assets, an entity considers the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 3, 7, 15, 67 and AG5 are amended. Paragraph 11 is deleted. Paragraphs 132O, BC 14-BC 15, and AG12, AG13 and AG14 are added. New text is underlined, and deleted text is struck through.

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Scope

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- 3 This Standard shall be applied in accounting for intangible assets, except:
- (a) Intangible assets that are within the scope of another Standard;
 - (b) Financial assets, as defined in IPSAS 28, *Financial Instruments: Presentation*;
 - (c) The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources);

- (d) Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;
 - (e) [Deleted]
 - (f) [Deleted]
 - (g) Powers and rights conferred by legislation, a constitution, or by equivalent means;
 - (h) Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);
 - (i) Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts. In cases where the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets; and
 - (j) [Deleted]
 - (k) ~~In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 115–127 apply to those heritage assets that are recognized....~~
7. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, or as an intangible asset under this Standard, an entity uses judgment to assess which element is more significant. For example, the navigation software for a fighter aircraft is integral to the aircraft and is treated as property, plant, and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

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Intangible Heritage Assets

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- ~~11. This Standard does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.~~
- 15. The disclosure requirements in paragraphs 117–124 require entities to make disclosures about recognized intangible assets. Therefore, entities ~~that recognize intangible heritage assets~~ are required to disclose in respect of ~~these~~ recognized intangible heritage assets such matters as, for example:
 - (a) The measurement basis used;
 - (b) The amortization method used, if any;
 - (c) The gross carrying amount;
 - (d) The accumulated amortization at the end of the period, if any; and

- (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

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Recognition of an Expense

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67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 52), except when it is acquired as part of an acquisition. Other examples of expenditure that is recognized as an expense when it is incurred include:
- (a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with ~~IPSAS 17~~IPSAS 45. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);
 - (b) Expenditure on training activities;
 - (c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and
 - (d) Expenditure on relocating or reorganizing part or all of an entity.

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Effective Date

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132O. Paragraphs 3, 7, 15, 67, and AG5 were amended, paragraph 11 was deleted, and paragraphs AG12, AG13, AG14, BC14 and BC15 were added by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS 45 at the same time.

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Application Guidance

This Appendix is an integral part of IPSAS 31.

Website Costs

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AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers, and Internet connections) of a website. Such expenditure is accounted for under ~~IPSAS 17~~IPSAS 45 *Property, Plant, and Equipment*. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's website, the expenditure is recognized as an expense when the services are received.

...

Intangible Heritage Assets: Cost or Current Value Cannot be Measured Reliably

AG12. Where intangible heritage assets are not recognized in the financial statements because, at initial measurement, their cost or fair value cannot be measured reliably, the entity shall disclose:

- (a) The difficulties in obtaining a reliable measurement that prevented recognition; and
- (b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.

AG13. The disclosures should ensure that, when read in the context of information about recognized intangible assets, the financial statements provide useful and relevant information about the entity's overall holding of intangible assets, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG14. These disclosures may be presented in aggregate for groups or classes of intangible assets, provided this aggregation does not obscure significant information.

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Basis for Conclusions

...

Revaluation Model

BC9. The revaluation model proposed in IPSAS 31 is similar to that in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. When this Standard was issued, IPSAS 17, *Property, Plant, and Equipment* required revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB had considered this approach for intangible assets, but concluded that it was not necessary because intangible assets differ from property, plant, and equipment in that they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB had concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this conclusion is still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

...

Revision of IPSAS 31 as a result of [draft] ED 78

BC15. During development of IPSAS 45, *Property, Plant, and Equipment*, the IPSASB concluded that the heritage nature of an asset does not prevent its recognition. On the basis that the same conceptual arguments apply to intangible heritage as those that apply to property, plant, and equipment the IPSASB decided to remove the heritage scope exclusion in IPSAS 31. This ensures that IPSAS 31's treatment of intangible heritage assets is consistent with the accounting treatment for heritage

property, plant, and equipment. Recognition of intangible heritage assets that meet IPSAS 31's recognition criteria will provide information that users of the financial statements find useful for accountability and decision-making.

BC16. The IPSASB considered whether the disclosure requirements in ED 78 for unrecognized heritage property, plant, and equipment should also apply to unrecognized intangible heritage assets. On the basis that disclosure requirements in ED 78 will provide useful information for accountability and decision-making on intangible heritage assets that are not recognized because their cost or fair value cannot be measured reliably, the IPSASB concluded that the same disclosure requirements should apply to intangible heritage assets. The IPSASB decided, therefore, to add application guidance that sets out disclosure requirements with respect to unrecognized intangible heritage assets.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 31.

...

Examples Illustrating the Application Guidance

IE22. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2-AG3 and to illustrate application of paragraphs AG4-AG11 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
Planning	
...	...
Application and Infrastructure Development	
...	Apply the requirements of IPSAS 17 <u>IPSAS 45, Property, Plant, and Equipment.</u>
Graphical Design Development	
...	...

...

Comparison with IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

- IPSAS 31 includes a scope exclusion for the powers and rights conferred by legislation, a constitution, or by equivalent means.
- IPSAS 31 incorporates the guidance contained in the Standing Interpretation Committee's Interpretation 32, *Intangible Assets—Web Site Costs* as Application Guidance to illustrate the relevant accounting principles.
- IPSAS 31 ~~does not require or prohibit the recognition of~~ includes paragraphs that describe intangible heritage assets, and states that an entity is required to comply with the disclosure requirements of this Standard with respect to intangible heritage assets that have been recognized. It has application guidance that requires disclosure on intangible heritage assets that have not been recognized. IAS 38 does not have similar guidance.
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through non-exchange transactions. IPSAS 31 states that where an intangible asset is acquired through a non-exchange transaction, the cost is its fair value as at the date it is acquired.
- IAS 38 provides guidance on exchanges of assets when an exchange transaction lacks commercial substance. IPSAS 31 does not include this guidance.
- The examples included in IAS 38 have been modified to better address public sector circumstances.
- IPSAS 31 uses different terminology, in certain instances, from IAS 38. The most significant examples are the use of the terms "revenue," "statement of financial performance," "surplus or deficit," "future economic benefits or service potential," "accumulated surpluses or deficits," "operating/operation," "rights from binding arrangements (including rights from contracts or other legal rights)," and "net assets/equity" in IPSAS 31. The equivalent terms in IAS 38 are "income," "statement of comprehensive income," "profit or loss," "future economic benefits," "retained earnings," "business," "contractual or other legal rights," and "equity."

Amendments to IPSAS 32, Service Concession Arrangements: Grantor

Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35 and AG48 are amended. Paragraph 36H is added. New text is underlined, and deleted text is struck through.

...

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5-AG35)

...

12. Where an existing asset of the grantor meets the conditions specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted for in accordance with ~~IPSAS 47~~IPSAS 45, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*, as appropriate.

13. After initial recognition or reclassification, service concession assets shall be accounted for in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate.

...

Presentation and Disclosure (see paragraphs AG65-AG67)

...

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services). This disclosure is in addition to the disclosures required in ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31 or may be included in more than one class of assets disclosed in accordance with ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31. For example, for the purposes of ~~IPSAS 17~~IPSAS 45 a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

...

Effective Date

...

- 36H. Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35 and AG48 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS 45 at the same time.

...

Application Guidance

This Appendix is an integral part of IPSAS 32.

...

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9-13)

Recognition of a Service Concession Asset

...

- AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer or surface of a road or the roof of a building), the asset is considered as a whole. Thus the condition in paragraph 9(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

...

Existing Asset of the Grantor

...

AG16. In applying the impairment tests in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 13.

...

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor recognizes and measures the asset in accordance with this Standard. ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, set out the criteria for when a service concession asset should be recognized. Both ~~IPSAS 17~~IPSAS 45 and IPSAS 31 require that an asset shall be recognized if, and only if:

- (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- (b) The cost or fair value of the item can be measured reliably.

...

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in ~~IPSAS 17~~IPSAS 45 for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a service concession asset and an associated liability.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph 11 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph 12 of this Standard. The use of fair value on initial recognition does not constitute a revaluation under ~~IPSAS 17~~IPSAS 45 or IPSAS 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

- (h) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.
- (i) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in ~~IPSAS 17~~IPSAS 45 and IPSAS 31.

...

Separable Payments

...

AG30. ~~IPSAS 17~~IPSAS 45 and IPSAS 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

...

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph ~~38~~20 of ~~IPSAS 17~~IPSAS 45 and paragraph 44 of IPSAS 31, as appropriate, provide guidance on these circumstances.

...

Subsequent Measurement

AG35. After initial recognition, a grantor applies ~~IPSAS 17~~IPSAS 45 and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. IPSAS 21 and IPSAS 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognized or classified as service concession assets in accordance with this Standard.

...

Recognition and Measurement of Liabilities (see paragraphs 14-28)

...

Grant of a Right to the Operator Model (see paragraphs 24-26)

...

AG48. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognized and the liability recognized in accordance with paragraph 24 is reduced in a manner similar to that described in paragraph AG47. In such cases, the grantor also considers the derecognition requirements in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate.

...

Basis for Conclusions

...

Revision of IPSAS 32 as a result of Part II of *Improvements to IPSASs 2015*: issues raised by stakeholders

BC49. When this Standard was issued ~~t~~The IPSASB had had its attention drawn to a possible inconsistency between the requirements in IPSAS 32 and the requirements in IPSAS 17 and IPSAS 31. The requirements in IPSAS 32 could have been seen as requiring service concession assets to be presented as a single class of assets, even if they were of a dissimilar nature and function. As it ~~is~~ was not the intention of the IPSASB to require that dissimilar assets be reported as if they were similar, the IPSASB had decided to propose clarifications to IPSAS 32 to make its intentions clear. The IPSASB had considered whether these changes would reduce the information available to users, but ~~is~~ was satisfied that the ~~then~~ current disclosure requirements, in particular those in paragraph 32, would ensure high quality disclosures about assets subject to service concession arrangements. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

BC50. The IPSASB had noted that the reclassification of service concessions assets could require a change in measurement basis for some entities. For example, some service concession assets measured using the revaluation model, might have been reclassified into a class of assets measured using the cost model. Equally, some service concession assets that were measured using the cost model, might have been reclassified into a class of assets measured using the revaluation model. Because the balance between the service concession assets and the other assets in a class will vary from entity to entity, the IPSASB had agreed to permit entities to select the measurement basis to be applied at the point of reclassification. The IPSASB had also noted that the information required to retrospectively apply the cost model might not have been readily available. Consequently, the IPSASB had agreed to permit entities to use the carrying amounts determined under the revaluation model as deemed cost at the point of reclassification where an entity ~~elects~~ elects to measure a class of assets using the cost model. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45, while the cost model in IPSAS 17 is labeled the historical cost model.

...

Implementation Guidance

...

Accounting Framework for Service Concession Arrangements

...

References to IPSASs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

...

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Table 1: Standard lease arrangements within the scope of IPSAS 31						
Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/Privatization/Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by binding arrangement or license)
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 13	IPSAS 1	This IPSAS/ IPSAS 17 <u>IPSAS 45, <i>Property, Plant, and Equipment</i></u> /IPSAS 31		IPSAS 17 <u>IPSAS 45</u> /IPSAS 31 (derecognition) ...	

Illustrative Examples

...

Arrangement Terms (Common to All Three Examples)

...

IE5. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a ~~fair value~~current operational value of CU110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.

IE6. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs. It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession asset and measured at the estimated ~~fair value~~current operational value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base (substructure) and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

...

IE8. At the beginning of year 3, the total ~~fair value~~current operational value of the road is CU1,050, comprised of CU940 related to the construction of the base layers and CU110 related to construction of the surface layers. The ~~fair value~~current operational value of the surface layers is used to estimate the ~~fair value~~current operational value of the resurfacing (which is treated as a replacement component in accordance with ~~IPSAS 17~~IPSAS 45). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial ~~fair value~~current operational value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

...

IE15. The grantor's accounting policy for property, plant, and equipment is to recognize such assets using the historical cost model specified in ~~IPSAS 17~~IPSAS 45.

Exhibit 1: Fair Values of the Components of the Arrangement (Currency Units)

Arrangement Component	Fair Value
Road – base layers (substructure)	940
Road – original surface layers	110
Total FV Current operational value of road	1,050
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

...

Financial Statement Impact

IE17. The grantor initially recognizes the service concession asset as property, plant, and equipment at its ~~fair value~~current operational value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers), starting from year 3.

...

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE22. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

...

Table 1.2 Statement of Financial Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	–	–	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	–	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)

PROPERTY, PLANT, AND EQUIPMENT

Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/ (deficit)	–	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:

Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.

Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.

Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 7655 of IPSAS 17IPSAS 45 requires that, “The depreciation method shall reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity.” Likewise, for intangible assets, paragraph 96 of IPSAS 31 requires that, “The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.”

Table 1.3 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	–
Cumulative surplus/deficit	–	32	167	295	414	525	628	721	811	891

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 1.2).

The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

...

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road**Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position**

...

Financial Statement Impact

IE24. The grantor initially recognizes the service concession asset as property, plant, and equipment at its fair value ~~current operational value~~ (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers, starting in year 3).

...

Cash Flows

IE30. Because there are no payments made to the operator, there are no cash flow impacts for this example.

...

Table 2.2 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	–	–	–	–	–	–	–	–
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	–
Cumulative surplus/deficit	–	–	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~ IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 2.2).

The liability is increased in year 8 for the recognition of the new component of the service concession asset.

...

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

...

Financial Statement Impact

IE32. The grantor initially recognizes the service concession asset as property, plant, and equipment at its ~~fair value~~ current operational value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers).

...

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

...

Table 3.3 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Liability	(262)	(525)	(452)	(380)	(307)	(235)	(162)	(145)	(72)	–
Financial liability	(263)	(541)	(480)	(416)	(348)	(276)	(199)	(172)	(89)	–
Cumulative surplus/deficit	–	16	38	59	74	86	93	95	95	91

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~ IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 3.2).

The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

Amendments to IPSAS 33, First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)

Paragraphs 36, 48, 49, 64, 66, 67, 68, 69 and 129 are amended. Paragraph 154N is added. New text is underlined, and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

36. Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:

- (a) Inventories (see IPSAS 12, *Inventories*);
- (b) Investment property (see IPSAS 16, *Investment Property*);
- (c) Property, plant, and equipment (see ~~IPSAS 17~~IPSAS 45, *Property, Plant and Equipment*);
- (d) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);
- (e) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);
- (f) Intangible assets (see IPSAS 31, *Intangible Assets*);
- (g) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);
- (h) Financial instruments (see IPSAS 41, *Financial Instruments*); and
- (i) Social benefits (see IPSAS 42, *Social Benefits*).

...

Other Exemptions

...

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

48. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure property, plant, and equipment, it is not required to recognize and/or measure 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 the exemption for ~~IPSAS 17~~IPSAS 45 has expired, and/or the relevant asset is recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

49. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize and/or measure property, plant, and equipment. ~~IPSAS 17~~IPSAS 45 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. Where a first-time adopter takes advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of property, plant, and equipment, a first-time adopter 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 the exemption that provided the relief has expired, and/or when the relevant asset is recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier). The liability shall be measured as at the date of adoption of IPSASs, or where a first-time adopter has taken advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of an asset, the date on which the exemption that provides the relief has expired and/or the asset has been recognized and/or measured in accordance with the applicable IPSASs.

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

...

Using Deemed Cost to Measure Assets and/or Liabilities

64. **A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:**
- (a) **Inventory (see IPSAS 12);**
 - (b) **Investment property, if the first-time adopter elects to use the historical cost model in IPSAS 16;**
 - (c) **Property, plant, and equipment (see ~~IPSAS 17~~IPSAS 45);**
 - (d) **Intangible assets, other than internally generated intangible assets (see IPSAS 31) 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);**
 - (e) **Financial Instruments (see IPSAS 41); or**
 - (f) **Service concession assets (see IPSAS 32).**

...

66. The use of deemed cost is not considered a revaluation or the application of the fair current value model for subsequent measurement in accordance with other IPSASs.

67. A first-time adopter may elect to use the revaluation amount of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:
- (a) Fair value or current operational 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.
68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant, and equipment by measuring it at fair value or current operational value at one particular date because of a specific event:
- (a) If the measurement date is at or before the date of adoption of IPSASs, a first-time adopter may use such event-driven fair value or current operational value measurements as deemed cost for IPSASs at the date of that measurement.
 - (b) If the measurement date is after the date of adoption of IPSASs, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven ~~fair value~~ current operational value measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.
69. In determining the fair value or current operational value in accordance with paragraph 67, the first-time adopter shall apply the definition of fair value or current operational value and guidance in other applicable IPSASs in determining the fair value or current operational value of the asset in question. The fair value or current operational value shall reflect conditions that existed at the date on which it was determined.

...

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

129. If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:
- (a) The carrying amounts determined in accordance with this IPSAS that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of IPSASs, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity; or
 - (b) The carrying amounts required by the rest of this IPSAS, based on the controlled entity's date of adoption of IPSASs. These carrying amounts could differ from those described in (a):
 - (i) When the exemptions in this IPSAS result in measurements that depend on the date of adoption of IPSASs.
 - (ii) When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the historical cost model in

IPSAS 17~~IPSAS 45~~, whereas the economic entity may use the ~~revaluation~~**current value model**.

...

Effective Date

154N. Paragraphs 36, 48, 49, 64, 66, 67, 68, 69 and 129 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS 45 at the same time.

...

Basis for Conclusions

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition, Measurement and Classification of Non-Financial Assets

...

BC43. In considering the relief that should be provided to a first-time adopter for the recognition of its assets, when this Standard was issued, the IPSASB had considered the then existing five year relief period in IPSAS 17. To encourage entities to prepare for the adoption of IPSASs in advance of the preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB had agreed that a grace period not exceeding three years should be allowed. As entities should have prepared well in advance for their transition to accrual basis IPSASs and not solely rely on the relief period provided in this IPSAS, the IPSASB was ~~is~~ of the view that the three year transitional period ~~is~~ was more manageable, and would ~~reduces~~ the period over which entities would ~~will~~ not be able to assert compliance with IPSASs. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

...

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSASs

...

BC57. When this Standard was issued, IPSAS 17 ~~requireds~~ 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 ~~requireds~~ that the obligation for costs accounted for in accordance with IPSAS 17 ~~was~~is recognized and measured in accordance with IPSAS 19.

BC58. The IPSASB had agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is

located until such time as the relevant item of property, plant, and equipment ~~is~~ was recognized and/or measured in accordance with IPSAS 17. A transitional relief period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Deemed Cost

Deemed Cost for Assets and/or Liabilities

BC80. Some measurements in accordance with IPSASs are based on an accumulation of past costs or other transaction data. If a first-time adopter has not previously collected the necessary information, collecting or estimating it retrospectively may be costly and/or impractical. To avoid excessive cost, this IPSAS allows a first-time adopter to use the fair value as a substitute for the initial cost of inventory, investment property where the first-time adopter elects to use the historical cost model in IPSAS 16, property, plant and equipment, financial instruments and service concession assets at the date of adoption of IPSASs. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the fair value is the deemed cost at the date at which the asset is recognized and/or measured during the period of transition.

...

BC82. When this Standard was issued, ~~Under the revaluation model in IPSAS 17, if an entity revalued~~ an asset, it ~~must~~ had to revalue all assets in that class. This restriction ~~prevented~~ selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB had considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21, *Impairment of Non-cash-generating Assets* and IPSAS 26, *Impairment of Cash-generating Assets* ~~required~~ an impairment test if there ~~is~~ was any indication that an asset ~~is~~ was impaired. Thus, if a first-time adopter ~~used~~ fair value as deemed cost for assets whose fair value ~~is~~ was likely to be above cost, it ~~could not~~ cannot ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable when current operational value is used as deemed cost. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

...

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC92. When this Standard was issued, ~~The~~ IPSASB had considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require a time-consuming and expensive estimation of cost, if previous revaluations already ~~complied~~ with IPSASs. This IPSAS therefore ~~allowed~~ a first-time adopter to use a revaluation under its previous basis of accounting for property, plant, and equipment determined at or before the date of adoption of

IPSASs, as deemed cost. This was allowed to may be used if the revaluation ~~is~~ 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.

BC93. In determining “fair value”, the guidance in each applicable IPSAS ~~is~~ was considered, where such guidance ~~is~~ was provided. In IPSAS 17 it ~~is~~ was noted that fair value ~~is~~ was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also ~~states~~ noted that if market-based evidence ~~is~~ was not available to measure items of property, plant, and equipment, an entity could ~~can~~ estimate fair value using replacement cost, reproduction cost or a service units approach. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that IPSAS 45 refers to historical cost rather than cost and uses current operational value rather than fair value.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

...

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

...

Recognition of Provisions Included in the Initial Cost of an Item of Property, Plant, and Equipment

IG22. ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* recognizes that in some cases, the construction or commissioning of an item of property, plant, and equipment will result in an obligation for an entity to dismantle or remove the item of property, plant, and equipment and restore the site on which the asset is located. An entity is required to apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* in recognizing and measuring the resulting provision to be included in the initial cost of the item of property, plant, and equipment.

IG23. IPSAS 33 provides an exemption for the recognition of this liability. A first-time adopter is allowed to not recognize and/or measure 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 exemption for ~~IPSAS 17~~IPSAS 45 expires and/or the relevant asset is recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

...

~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*

IG53. If a first-time adopter'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 (paragraph 22 and 26 of IPSAS 33 and paragraph ~~76~~55 of ~~IPSAS 17~~IPSAS 45). However, in some

cases, a first-time adopter'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.

IG54. A first-time adopter may elect to use one of the following amounts as the deemed cost of property, plant, and equipment:

- (a) ~~Fair value~~Current operational value at the date of adoption of IPSASs (paragraph 67 of IPSAS 33), in which case the first-time adopter provides the disclosures required by paragraph 148 of IPSAS 33; or
- (b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS 33.

IG55. Subsequent depreciation is based on that deemed cost and starts from the date for which the first-time adopter determined the deemed cost, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

IG56. If a first-time adopter chooses as its accounting policy the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 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 adoption of IPSASs 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~~current operational value at the date of adoption of IPSASs or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with ~~IPSAS 17~~draft] IPSAS [X] (ED 78) (whichever is earlier), the first-time adopter provides the disclosures required by paragraph 148 of IPSAS 33.

IG57. If revaluations in accordance with the first-time adopter's previous basis of accounting did not satisfy the criteria in paragraphs 67 or 69 of IPSAS 33, the first-time adopter 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 historical cost model in ~~IPSAS 17~~draft] IPSAS [X] (ED 78);
- (b) Deemed cost, being the ~~fair value~~current operational value or an alternative when market-based evidence of ~~fair value~~current operational value is not available, at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition, or when the transitional exemptions expire (whichever is earlier); or
- (c) A revalued amount, if the entity adopts the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 as its accounting policy in accordance with IPSASs for all items of property, plant, and equipment in the same class.

IG58. ~~IPSAS 17~~IPSAS 45 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~~IPSAS 45 does not prescribe the unit of measurement for recognition of an asset, i.e. what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances (see paragraphs 488 and 5939).

...

Summary of Transitional Exemptions and Provisions Included in IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*

IG92. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

...

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
...
IPSAS 17 IPSAS 45, <i>Property, Plant, and Equipment</i>		√	√ Property, plant, and equipment not recognized under previous basis of accounting	√ Property, plant, and equipment recognized under previous basis of accounting				

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

...

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected

PROPERTY, PLANT, AND EQUIPMENT

	Do not affect fair presentation and -compliance with accrual basis IPSAS	Do not affect fair -presentation and -compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
...
IPSAS 17IPSAS 45, <i>Property, Plant, and Equipment</i> Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
...

...

Amendments to IPSAS 36, Investments in Associates and Joint Ventures

Paragraph 33 is amended. Paragraph 51L is added. New text is underlined, and deleted text is struck through.

...

Application of the Equity Method

...

Equity Method Procedures

...

33. The gain or loss resulting from the contribution of non-monetary assets that do not constitute an operation, as defined in IPSAS 40, to an associate or a joint venture in exchange for an equity interest in that associate or joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 34 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

...

Effective Date

51L. Paragraph 33 was amended by IPSAS 45 issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies this amendment for a period

beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS 45 at the same time.

...

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 11, 53, and 123 are amended. Paragraph 176B is added. New text is underlined, and deleted text is struck through.

...

Short-Term Employee Benefits

...

Recognition and Measurement

All Short-Term Employee Benefits

11. When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
 - (a) As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.
 - (b) As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IPSAS 12, *Inventories*, and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*).

...

Post-Employment Benefits—Defined Contribution Plans

...

Recognition and Measurement

53. When an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable to a defined contribution plan in exchange for that service:
 - (a) As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
 - (b) As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IPSAS 12 and ~~IPSAS 17~~IPSAS 45).

...

Components of Defined Benefit Cost

...

123. Other IPSASs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant, and equipment (see IPSAS 12 and ~~IPSAS 17~~IPSAS 45). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

...

Effective Date

...

179B. Paragraphs 11, 53 and 123 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS 45 at the same time.

Amendments to IPSAS 40, Public Sector Combinations

Paragraphs BC 82, IE167, IE168, IE171, IE180, IE185, IE192, IE257, IE258 and IE259 are amended. New text is underlined, and deleted text is struck through.

Basis for Conclusions**Accounting for Amalgamations (paragraphs 15-57)****Measurement Period**

...

- BC82. When this Standard was issued, the IPSASB had considered whether such a period was required when accounting for an amalgamation. The modified pooling of interests method does not require assets and liabilities to be restated to fair value at the amalgamation date. However, the IPSASB noted that the combining operations may have different accounting policies, which could result in some assets and liabilities being required to be restated to conform to the resulting entity's accounting policies. For example, the resulting entity may adopt an accounting policy of revaluing certain assets such as property, plant, and equipment. If one or more combining operations had previously adopted an accounting policy of measuring such assets at cost, the practical effect of determining the carrying amount of those assets under the revaluation model would be similar to that of determining their fair value. For this reason, the IPSASB agreed that it was appropriate to permit a resulting entity time to obtain the information needed to restate assets and liabilities to conform to its accounting policies. The IPSASB agreed that a period of one year was appropriate. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45 and IPSAS 17 referred to cost and fair value, while IPSAS 45, *Property, Plant, and Equipment*, refers to historical cost and current operational value.

...

Illustrative Examples

...

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26-27 and 36 of IPSAS 40

...

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45.

IE168. RE adopts an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~current value model. RE seeks an independent valuation for the items of property, plant, and equipment previously controlled by COA.

...

IE171. RE recognizes the items of property, plant, and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph ~~67~~46 of ~~IPSAS 17~~IPSAS 45, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37-39 of IPSAS 40

...

IE180. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~ current value model. RE has adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~ current value model. RE obtains an independent valuation for the items of property, plant, and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant, and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

...

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40-44 of IPSAS 40.

...

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the ~~revaluation~~ current value model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the ~~revaluation~~ current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53-57 of IPSAS 40.

...

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of IPSAS 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

...

Paragraph reference				
		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
54(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant, and equipment recorded by COA to measure the items using the revaluation <u>current value</u> model	12,116	17,954	30,070

...

Measurement Period in an Acquisition**Illustrating the Consequences of Applying Paragraphs 103-108 of IPSAS 40.**

...

IE257. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant, and equipment acquired in the combination, and the valuation was not complete by the time AE authorized for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognized a provisional ~~fair value~~ current operational value for the asset of CU30,000. At the acquisition date, the item of property, plant, and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset's acquisition-date ~~fair value~~ current operational value as CU40,000.

IE258. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:

- (a) The carrying amount of property, plant, and equipment as of 31 December 20X7 is increased by CU9,500. That adjustment is measured as the ~~fair value~~ current operational value adjustment at the acquisition date of CU10,000 less the additional depreciation that would have been recognized if the asset's ~~fair value~~ current operational value at the acquisition date had been recognized from that date (CU500 for three months' depreciation).
- (b) The carrying amount of goodwill as of 31 December 20X7 is -decreased by CU10,000.
- (c) Depreciation expense for 20X7 is increased by CU500.

IE259. In accordance with paragraph 124 of IPSAS 40, AE discloses:

- (a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant, and equipment has not yet been received.
- (b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the ~~fair value~~ current operational value of the item of property, plant, and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

Amendments to IPSAS 43, Leases

Paragraphs 5, 32, 36, 60, 84, 94, and AG45 are amended. Paragraph 100B is added. New text is underlined, and deleted text is struck through.

...

Definitions

5. The following terms are used in this [draft] Standard with the meanings specified:

....

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

The defined term useful life is used in this Standard with the meaning as in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*.

Lessee

Subsequent measurement

....

~~Historical Cost~~ cost model

....

32. A lessee shall apply the depreciation requirements in ~~IPSAS 17~~IPSAS 45 in depreciating the right-of-use asset, subject to the requirements in paragraph 33.

....

Other measurement models

....

36. If right-of-use assets relate to a class of property, plant, and equipment to which the lessee applies the ~~revaluation~~ current value model in ~~IPSAS 17~~IPSAS 45, a lessee may elect to apply that ~~revaluation~~ current value model to all of the right-of-use assets that relate to that class of property, plant, and equipment.

....

Disclosure

....

60. If a lessee measures right-of-use assets at revalued amounts applying ~~IPSAS 17~~IPSAS 45, the lessee shall disclose the information required by paragraph 92 of ~~IPSAS 17~~IPSAS 45 for those right-of-use assets.

....

Lessor

Operating leases

Recognition and measurement

....

84. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with ~~IPSAS 17~~IPSAS 45 and IPSAS 31.

....

Disclosure

Operating leases

94. For items of property, plant, and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of ~~IPSAS 17~~IPSAS 45. In applying the disclosure requirements in ~~IPSAS 17~~IPSAS 45, a lessor shall disaggregate each class of property, plant, and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by ~~IPSAS 17~~IPSAS 45 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

....

Costs of the lessee relating to the construction or design of the underlying asset

....

- AG45. If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as ~~IPSAS 17~~IPSAS 45. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

Effective Date

...

- 100B. Paragraphs 5, 32, 36, 60, 84, 94, and AG45 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

...

Amendments to IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations

Paragraphs 16 and 32 are amended. Paragraph 54A is added. New text is underlined, and deleted text is struck through.

...

Classification of Non-current Assets (or disposal groups) as Held for Sale or as Held for Distribution to Owners

....

16. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*.

....

Recognition of Impairment Losses and Reversals

....

32. A gain or loss not previously recognized by the date of the sale of a non-current asset (or disposal group) shall be recognized at the date of derecognition. Requirements relating to derecognition are set out in:

- (a) Paragraphs 82-87 of ~~IPSAS 17~~ IPSAS 45 for property, plant, and equipment; and
- (b) Paragraphs 111-116 of IPSAS 31 *Intangible Assets* for intangible assets.

Effective Date

...

58A. Paragraphs 16 and 32 were amended by IPSAS 45 issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 45 at the same time.

...

Basis for Conclusions

...

Scope

...

BC7. When this Standard was issued, tThe IPSASB had also discussed whether disclosures requiring the carrying amount of surplus non-current assets or non-current assets that are to be transferred to other public sector entities should have been added to IPSAS ~~45~~⁴⁷, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The IPSASB had decided that because these transactions were ~~are~~ beyond the scope of IPSAS 44 (as noted above in BC 6) and were ~~are~~ not consequential amendments arising from this Standard, it ~~is~~ was not appropriate to include a requirement for such disclosures in IPSAS 44. The IPSASB had also noted that IPSAS ~~45~~⁴⁷ encouraged ~~disclosures~~ for temporarily idle property, plant, and equipment, and property, plant, and equipment retired from active use that is not within the scope of IPSAS 44. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

Replacement of IPSAS 17: Revisions from the Heritage, Infrastructure and Measurement Projects

The IPSASB's Heritage, Infrastructure, and Measurement Projects

- BC1. IPSAS 45 is based on and replaces IPSAS 17, *Property, Plant, and Equipment*. It reflects revisions to the underlying IPSAS 17 text as a result of the IPSASB's Heritage, Infrastructure Assets, and Measurement projects.
- BC2. IPSAS 45 is based on IAS 16, *Property, Plant, and Equipment*. The IASB's Basis for Conclusions is not reproduced here. In those cases where the IPSAS departs from its related IAS, this Basis for Conclusions explains the public sector-specific reasons for the departure.
- BC3. This Basis for Conclusions focuses on heritage and infrastructure related revisions to the underlying IPSAS 17 text. The Basis for Conclusions in [draft] IPSAS [X], *Measurement*, explains the IPSASB's measurement-related decisions, which were to:
 - (a) Move IPSAS 17's generic measurement requirements into [draft] IPSAS [X], *Measurement*;
 - (b) Clarify the initial measurement principles; and
 - (c) Include the current operational value measurement basis where appropriate.
- BC4. The IPSASB decided to move some of IPSAS 17's core text into application guidance where the original text expanded on (and did not add to) the generic principles already in core text. This results in a consistent approach to core text/application guidance across IPSAS.
- BC5. [New] The IPSASB undertook a project to update its existing property, plant, and equipment guidance in IPSAS 17 to help constituents apply the principles to heritage and infrastructure assets. To this effect, additional, authoritative, and non-authoritative guidance was issued. The IPSASB notes that such guidance is applicable to all property, plant, and equipment and does not expect to initiate another project related to this [draft] Standard in the foreseeable future.

Overview of Heritage and Infrastructure Revisions

- BC6. This section provides an overview of revisions to address constituents' views with respect to IPSAS 17's application to heritage and infrastructure assets. Further detail on specific decisions is provided in subsequent sections.
- BC7. After considering responses to the Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*, and constituents' feedback on infrastructure assets the IPSASB concluded that:
 - (a) IPSAS 45 should fully apply to heritage assets that are property, plant, and equipment; and
 - (b) Additional authoritative and non-authoritative guidance should be included in IPSAS 45 to clarify its application to heritage and infrastructure assets.

Heritage Assets: Application of IPSAS 45 and Additional Guidance

- BC8. The IPSASB concluded that the principles in IPSAS 45 should fully apply to heritage assets, on the basis that:

- (a) Recognition of heritage assets will increase the transparency of heritage-related financial information so that users are better able to hold entities accountable for their heritage-related decisions, particularly those that support heritage preservation;
 - (b) Their heritage nature does not prevent heritage items being assets for financial reporting purposes;
 - (c) Many heritage items are assets and should be recognized in the statement of financial position when they meet the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) recognition criteria;
 - (d) Since the heritage nature of an item is not, by itself, a reason for special financial reporting requirements, a separate heritage focused IPSAS is unnecessary; and
 - (e) Where heritage items are within the scope of another IPSAS, that Standard should apply (for example, IPSAS 31, *Intangible Assets* should be applied for heritage assets that are intangible in nature).
- BC9. The IPSASB considered whether IPSAS 45 should include additional authoritative and/or non-authoritative guidance to support its application to heritage assets. On the basis that no principles existed to address these topics, the IPSASB decided to add authoritative guidance on:
- (a) Scope (see paragraphs AG2-AG3);
 - (b) Resource (see paragraphs AG10-AG12);
 - (c) Depreciation (see paragraphs 55-58 and AG39); and
 - (d) Disclosures on unrecognized heritage assets (see paragraphs 80-81 and paragraphs AG44-AG45).
- BC10. On the basis that additional non-authoritative guidance was needed to enhance the consistency of entities' application of IPSAS 45, the IPSASB decided to add non-authoritative guidance on:
- (a) Control (see paragraphs IG6-IG8);
 - (b) Recognition related to subsequent expenditure on unrecognized heritage assets (see paragraph IG9);
 - (c) Capitalization thresholds (see paragraphs IG10-IG14);
 - (d) Measurement at current value (see paragraphs IG15-IG18); and
 - (e) Depreciation related to useful lives ((see paragraphs IG26-IG29).

Infrastructure Assets: Additional Guidance

- BC11. The IPSASB considered the issues raised by constituents related to accounting for infrastructure assets. When evaluating whether additional guidance should be included in IPSAS 45, the IPSASB concluded where existing principles were clear, non-authoritative guidance should be added. Where no principle existed, a principle should be developed. The IPSASB decided to add authoritative guidance to IPSAS 45 on the following topics:
- (a) Characteristics and examples of infrastructure assets (see paragraphs AG4-AG6);
 - (b) Resource and control (see paragraphs AG8-AG15); and
 - (c) Identifying parts of infrastructure assets (see paragraph AG31).

BC12. On the basis that additional non-authoritative guidance is needed to enhance the consistency of the entities' application of IPSAS 45, the IPSASB further concluded that the following guidance should be added to address:

- (a) Control of land under or over infrastructure assets (see paragraphs IG1-IG5 and IE1-IE5);
- (b) Capitalization thresholds (see paragraphs IG10-IG14);
- (c) Valuing land under or over infrastructure assets (see paragraphs IG19-IG21);
- (d) Identifying parts of infrastructure assets (see paragraphs IG30-IG34);
- (e) Use of information in asset management plans for financial reporting (see paragraphs IG35-IG36); and
- (f) Under-maintenance of assets (see paragraphs IG37-IG40).

BC13. On the basis that sufficient guidance exists, the IPSASB concluded that no additional guidance is needed in IPSAS 45 to address:

- (a) A separate definition for infrastructure assets because they are property, plant, and equipment;
- (b) Spare parts for infrastructure assets;
- (c) Costs to dismantle infrastructure assets;
- (d) Separately accounting for land under or over infrastructure assets;
- (e) Renewals accounting;
- (f) Impairment; and
- (g) Derecognition.

The IPSASB included its rationale for not adding guidance to address these issues in the Basis for Conclusions to inform constituents that the IPSASB considered these issues.

Scope

Remove the Heritage Scope Exclusion Paragraphs

BC14. As explained in paragraph BC7, the IPSASB concluded that IPSAS 17 should fully apply to heritage items that are property, plant, and equipment. Therefore, IPSAS 17's scope exclusion for heritage assets and related paragraphs have been deleted in the replacement Standard, IPSAS 45.

Move List of Property, Plant, and Equipment to Application Guidance

BC15. In reaching its decision on heritage assets, the IPSASB noted that the list of different types of property, plant, and equipment included in the IPSAS 17 section on scope is more in the nature of application guidance than that of principles to include in core text. On this basis the IPSASB decided that the list and related descriptions should be moved to application guidance in IPSAS 45.

Definition of Property, Plant, and Equipment

Definition, Description and Characteristics of Heritage and Infrastructure Assets

- BC16. The IPSASB decided neither heritage nor infrastructure assets need to be defined, because they are subsets of property, plant, and equipment and the [draft] IPSAS [X] (ED 78's) principles on property, plant, and equipment therefore apply to heritage and infrastructure. Based on responses to the Heritage CP and constituents' comments related to infrastructure, the IPSASB concluded that the IPSAS 45, should include application guidance, including the characteristics of heritage and infrastructure, to help entities identify their heritage assets (see paragraphs AG2-AG3) and infrastructure assets (see paragraphs AG4-AG6).
- BC17. When considering what heritage and infrastructure characteristics should be included in this Standard, the IPSASB decided to only include characteristics ~~should be those~~ that distinguish heritage and infrastructure assets from other property, plant, and equipment, and which ~~while also~~ presenting complexities in the application and implementation of this standard's principles. On this basis, the IPSASB decided to only include the following characteristics:
- (a) Heritage assets are characterized as irreplaceable and having restrictions and long and sometimes indefinite useful lives; and
 - (b) Infrastructure assets are characterized as networks or systems that have long useful lives.
- BC18. For infrastructure assets, the IPSASB also decided to update the examples of infrastructure assets and include the various assets that make up these "networks or systems" and link these examples to the revised characteristics of infrastructure assets of "networks or systems" and "long useful lives" (see paragraph AG6).

Replace the Term 'Tangible Items' with 'Tangible Assets'

- BC19. The definition of property, plant, and equipment in IPSAS 17 referred to 'tangible items' with no reference to 'asset'. A strict application of this definition could lead to the recognition of an item that did not meet the definition of an asset in the Conceptual Framework or IPSAS 1, *Presentation of Financial Statements*².
- BC20. IPSAS 17 only provided guidance on when to recognize an asset but did not provide guidance on what constitutes control of an asset and what constitutes a resource.
- BC21. There are two types of uncertainty that need to be considered when determining whether an asset should be recognized. The first is existence uncertainty—whether the definition of an asset has been satisfied. The second is measurement uncertainty—whether the asset can be measured in a manner that achieves the qualitative characteristics.
- BC22. The uncertainty about the existence of an asset relates to certain characteristics of an asset—in particular whether an item such as a heritage item is a resource and whether an entity controls the resource.

² An asset is defined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and IPSAS 1, *Presentation of Financial Statements* and contains three common components: resource(s), control and past event.

BC23. The lack of reference to ‘asset’ caused confusion in practice because there are instances when it is uncertain that an item is a resource or that it is controlled by an entity. To address the uncertainty, the IPSASB:

- (a) Replaced the term “tangible items” with “tangible assets,” in the IPSAS 45 definition of property, plant, and equipment (see paragraph 6);
- (b) Added authoritative guidance on resource and control in IPSAS 45 (see paragraphs AG8-AG15); and
- (c) Added non-authoritative implementation guidance and illustrative examples on control in IPSAS 45 (see paragraphs IG1-IG8 and IE1-IE5).

Weapons Systems

BC24. When IPSAS 17 was revised as a result of Part III of *Improvements to IPSASs 2015*, the IPSASB had considered that Government Finance Statistics (GFS) reporting guidelines use the term “weapons systems” to comprise items that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. At that time, the IPSASB concluded that replacing the IPSAS term “specialist military equipment” with the GFS term “weapons systems” and including a description would clarify the applicability of IPSAS 17 while increasing consistency with GFS reporting guidelines. In developing IPSAS 45, the IPSASB concluded that the same principles should apply and continued to use the term “weapons systems” with a description (see paragraph AG7).

Recognition

Heritage Assets: The Operational/Non-Operational Distinction

BC25. The IPSASB considered whether only those heritage assets that are used for non-heritage purposes, called “operational” heritage assets, should be recognized. Operational heritage assets include, for example, a heritage bridge that functions as a bridge or a heritage railway station that is used as a railway station. Some national jurisdictions use the term “non-operational” to describe heritage assets that are used purely for heritage purposes. For example, museum collections held for public appreciation are non-operational heritage assets. Some constituents argued that non-operational heritage assets should not be recognized.

BC26. However, the IPSASB concluded that both operational and non-operational heritage items can be assets, since both can meet the Conceptual Framework’s definition of an asset (resource, control, past event). On this basis, the IPSASB decided that the distinction is not relevant to a decision on whether or not to recognize an asset.

Spare Parts for Infrastructure Assets

BC27. The IPSASB considered whether IPSAS 45 provided sufficient guidance on the accounting treatment of spare parts for infrastructure assets. The IPSASB concluded that accounting for spare parts is a generic issue and that sufficient authoritative guidance exists in IPSAS 45 for infrastructure asset spare parts that meet the definition of property, plant, and equipment, and in IPSAS 12, *Inventories* for spare parts that meet the definition of inventory.

Capitalization Thresholds

- BC28. The IPSASB considered the issues identified by constituents with respect to establishing capitalization thresholds for costs related to infrastructure assets. The IPSASB concluded that this issue applies broadly to property, plant, and equipment, and that any guidance should also apply broadly, and not be restricted to applying only to infrastructure assets.
- BC29. The IPSASB noted that this issue is generally considered to be a practical issue that is best addressed by management. Entities' management consider their specific assets holdings, and apply the need to meet users' information needs, materiality, and cost-benefit. However, the IPSASB concluded that there is scope for guidance on the factors for consideration when entities set their capitalization thresholds. On this basis, the IPSASB decided to add implementation guidance (see paragraphs IG10-IG14) on the factors to consider when establishing capitalization thresholds for property, plant, and equipment.

Disclosures Related to Unrecognized Heritage Property, Plant, and Equipment

- BC30. The IPSASB considered the issues identified by constituents with respect to disclosures related to unrecognized heritage assets. Being able to measure an asset in a way that achieves the qualitative characteristics and takes account of the constraints on information included in General Purpose Financial Reports (GPFRs) is necessary for recognition of an asset in the financial statements. IPSAS 45 states, in paragraph 7, that property, plant, and equipment must be able to be measured reliably for recognition. The IPSASB agreed with constituents that heritage assets may present measurement difficulties which prevent their recognition, but that information on such assets could be important to meet users' needs.
- BC31. In considering the need for additional disclosures when heritage property, plant, and equipment is not recognized, the IPSASB noted that, as explained in the Conceptual Framework, disclosures in the notes to the financial statements:
- (a) Can provide information on elements that cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting;
 - (b) Are appropriate when knowledge of the item is relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting; and
 - (c) May include items that do not meet the recognition criteria but are important to an understanding of the entity's finances and ability to deliver services.
- BC32. The IPSASB noted that there are cases where the cost or current value of heritage property, plant, and equipment is not able to be measured reliably and the assets cannot, therefore, be recognized. Information about the contribution of such assets to the delivery of the entity's objectives would nonetheless be useful to users of the financial statements.
- BC33. The IPSASB decided to include a requirement for additional disclosures on heritage property, plant, and equipment that is not recognized because it cannot be measured reliably on the basis that such information contributes to:
- (a) Achievement of the objectives of financial reporting; and,
 - (b) Users' understanding of the entity's finances and ability to deliver services for accountability and decision-making purposes.

Therefore, IPSAS 45 includes paragraph 80, which establishes that additional disclosures are required, and has application guidance for such disclosures in paragraphs AG44-AG45.

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

BC34. The IPSASB considered constituents' views on additional guidance on decisions to capitalize or expense subsequent expenditure on unrecognized heritage assets. The IPSASB concluded that there is sufficient authoritative guidance to address heritage-related concerns. The IPSASB's decision to not have a heritage scope exclusion in IPSAS 45, resulted in the Standard's authoritative guidance fully applying to heritage assets. Therefore, heritage assets that satisfy the recognition criteria will be recognized. Given measurement difficulties associated with heritage assets, however, the IPSASB acknowledged that some may not be able to be recognized. The IPSASB decided that application guidance should be added (see paragraph AG20) to establish that paragraph 7's principles apply to the recognition of subsequent expenditure on unrecognized heritage assets. The IPSASB further decided to include additional implementation guidance (see paragraph IG9), which is needed to support decisions on when to capitalize/ expense subsequent expenditure on unrecognized heritage property, plant, and equipment.

Measurement

Current Value Measurement of Heritage Assets

BC35. The IPSASB considered constituents' views on the need for guidance on application of the current value model to heritage assets. The IPSASB decided that, on the basis that entities need support to ensure consistent implementation of the Standard's principles, additional implementation guidance is needed on the measurement at current value when heritage assets are viewed as irreplaceable, and have restrictions on their use (see paragraphs IG15-IG18).

Initial Measurement

Elements of Cost

Costs to Dismantle Infrastructure Assets

BC36. The IPSASB considered whether sufficient guidance existed for accounting for costs to dismantle infrastructure assets because there is a need to highlight the impact of the future environmental or decommissioning costs on the value of acquired property, plant, and equipment, including infrastructure assets.

BC37. The IPSASB decided that this issue is not specific to infrastructure assets, and no additional guidance is necessary, because sufficient authoritative guidance exists in:

- (a) This IPSAS 45 which states that the cost of an item of property, plant, and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; and
- (b) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* which requires a public sector entity to recognize a provision for decommissioning costs to the extent that the public sector entity is obliged to rectify damage already caused.

Subsequent Measurement

Accounting Policy Choice

- BC38. The IPSASB considered whether additional guidance was necessary to assist in making the accounting policy choice of subsequently measuring classes of property, plant, and equipment either on a current value or historical cost model.
- BC39. The IPSASB concluded no additional guidance was needed. Management should continue to apply its judgment in choosing an accounting policy that results in information that:
- (a) Is relevant to the accountability and decision-making needs of users;
 - (b) Faithfully represents the financial position, financial performance, and cash flows of the entity;
 - (c) Meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability; and
 - (d) Considers the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics.

Current Value Model

Current Operational Value

- BC40. During the development of [draft] IPSAS [X], *Measurement*, the IPSASB considered concerns raised by respondents with regard to the application of fair value in the public sector. While respondents agreed fair value was applicable in some circumstances, they raised concerns about its applicability to public sector assets held for their operational capacity. Respondents suggested it was inappropriate to apply fair value to those assets because the following concepts are not applicable:
- (a) Highest and best use; and
 - (b) Maximizing the use of market participant data.
- BC41. The IPSASB addressed respondents' concerns by developing a public sector specific measurement basis-Current Operational Value. This measurement basis addresses the measurement of assets held for their operational capacity.
- BC42. However, the IPSASB concluded an item of property, plant, and equipment falling within the scope of this Standard may be held for its financial capacity and so, using the subsequent measurement hierarchy framework, as developed in [draft] IPSAS [X], *Measurement* would typically be accounted for using the fair value measurement basis. This may be the case where a jurisdiction determines that the difference between fair value and current operational value might be material in the context of consolidation and measuring the difference between the two bases may be onerous. However, the principle of generally measuring assets held for their financial capacity at fair value and assets held for their operational capacity at current operational value remains appropriate and a jurisdiction may determine that no consolidation adjustments are required where assets are held for different objectives.
- BC43. In reaching its conclusion to include fair value measurement in this Standard, the IPSASB considered allowing only current operational value as the measurement basis when applying the current value model in this Standard. In discussing this view, the IPSASB considered:

- (a) Scoping – Current operational value provides useful information when assets are held for their operating capacity. Based on the scope of this Standard, most items of property, plant, and equipment will be held for their operational capacity, i.e., to deliver services. Land or buildings that are held for their financial capacity are most likely accounted for in accordance with IPSAS 16, *Investment Property*;
- (b) Valuation – In cases where an item of property, plant, and equipment is held for its financial capacity and is in scope of this Standard, it is likely held in its highest and best use. When the current use of an asset is its highest and best use, differences in measurement between fair value and current operational value are likely immaterial; and
- (c) Precedent – Whether including a fair value option in this Standard creates a precedent whereby a fair value option should be included throughout the IPSASB literature to allow for items held for their financial capacity to be measured at fair value and items held for their operational capacity to be measured at current operational value. The IPSASB concluded the inclusion of fair value in this Standard does not set a precedent for measurement requirements in other Standards.

Valuing Land Under or Over Infrastructure Assets

- BC44. The IPSASB considered whether existing guidance in IPSAS 17 addressed the approach to valuing land under or over infrastructure assets such as land under roads and railways.
- BC45. The IPSASB decided to add non-authoritative implementation guidance to IPSAS 45 to clarify the existing principles related to the valuation of land under or over infrastructure assets (see paragraphs IG19-IG21).

Depreciation

Finite and Indefinite Useful Lives

- BC46. When considering accounting for land under or over infrastructure the IPSASB noted that generally, land has an indefinite useful life and is not, therefore, depreciated. Exceptions, where land should be depreciated, include where:
- (a) Land is being consumed due to depletion (such as mines and quarries or landfill sites); or
 - (b) Land is being lost or displaced as a result of natural phenomena such as climate change (for example, rock or soil erosion, or desertification).
- BC47. The IPSASB decided that the IPSAS 17 discussion of useful lives should be revised to better address situations where land has a finite useful life and should be depreciated (see paragraphs 55-58). During its consideration of this issue and those raised by heritage assets' useful lives, the IPSASB decided that the terminology of finite and indefinite useful lives, as used in IPSAS 31, should be used in IPSAS 45. This provides consistent terminology across IPSAS when considering useful lives for asset depreciation.
- BC48. The IPSASB further decided that the revised core text and related application guidance should also provide guidance to address situations where items of property, plant, and equipment (e.g., heritage assets, discussed further below) could have indefinite useful lives and should not, therefore be depreciated.
- BC49. The IPSASB considered that most non-land property, plant, and equipment have finite useful lives. On this basis, the IPSASB decided to include a rebuttable presumption that non-land

property, plant, and equipment has a finite useful life, so that an entity must have evidence to rebut that presumption before it can treat non-land property, plant, and equipment as having an indefinite useful life (see paragraph 55).

Depreciation of Heritage Assets

- BC50. Responses to the CP, *Financial Reporting for Heritage in the Public Sector* showed support for applying the same depreciation requirements to heritage assets as those applied to other types of property, plant, and equipment. Where respondents disagreed with that approach, some argued against depreciation, while others stated that guidance is needed on how to estimate heritage assets' useful lives and identify heritage assets for which there is no depreciation expense. On the basis that many heritage assets are consumed over time, as they deliver services and/or economic benefits, the IPSASB concluded that heritage assets can be depreciable assets.
- BC51. However, the IPSASB further concluded that heritage assets may have very long and even indefinite useful lives, due to factors such as their nature and/or the circumstances in which they are held. On this basis, the IPSASB decided that useful lives should be clarified to apply to situations where property, plant, and equipment have indefinite useful lives.
- BC52. To support entities' assessments of whether a heritage asset has a finite or indefinite useful life, the IPSASB decided to add non-authoritative implementation guidance (see paragraphs IG26-IG29).

Identifying Parts of Infrastructure Assets that Should Be Separately Depreciated

- BC53. The IPSASB considered whether it was a challenge to determine the appropriate unit of account when identifying significant parts of infrastructure assets that should be separately depreciated.
- BC54. The IPSASB noted the existing principles are clear that an asset could have different units of account for depreciation because parts of an item of property, plant, and equipment with a significant cost in relation to the total cost of the item shall be depreciated separately. This principle holds true for infrastructure assets, but judgment needs to be exercised in determining or identifying the units of account, which may be separate assets in their own right.
- BC55. The IPSASB decided to revise the example in paragraph AG34 in the application guidance which listed a number of assets (such as curbs and channels, pavements and bridges) that make up the road system as the units of account or parts that should be identified for separate recognition and depreciation to illustrate the principle of depreciating separately the parts of items of property, plant, and equipment at the appropriate level.
- BC56. The IPSASB acknowledged that the separate units of account described in the replaced example may be relevant in some jurisdictions but considered that jurisdictions will apply judgment in determining the appropriate units of accounts for their circumstances.
- BC57. The IPSASB also added implementation guidance (see paragraphs IG30-IG34).

Annual Impairment Tests for Property, Plant, and Equipment with Indefinite Useful Lives

- BC58. The IPSASB decided that where an entity has assessed property, plant, and equipment as having indefinite useful lives it is important that the assets be reviewed regularly for indicators of impairment. On this basis the IPSASB decided to insert a requirement for annual reviews for indicators of impairment applied to such assets into IPSAS 45 (see paragraph 59).

Separately Accounting for Land and Infrastructure Assets

- BC59. The IPSASB considered the issue of whether land and infrastructure assets are separate assets that should be separately accounted for.
- BC60. The IPSASB decided that no additional authoritative guidance should be included in IPSAS 45 because the guidance is clear that:
- (a) Land and buildings are separable assets and are accounted for separately (e.g., separate recognition and measurement) even when they are acquired together (see paragraph 53); and
 - (b) Land, buildings, roads and electricity transmission networks are examples of separate classes of property, plant, and equipment that should be separately disclosed (see paragraphs 37 and 72).

Renewals Accounting

- BC61. The IPSASB considered whether “renewals accounting” was an appropriate technique to estimate depreciation of property, plant, and equipment when they are managed in accordance with a detailed asset management plan.
- BC62. The IPSASB concluded there is no definitive “renewals accounting” method and that this technique should not be used in its literature to estimate depreciation of property, plant, and equipment given the numerous interpretations across different jurisdictions.

Use of Information in Asset Management Plans for Financial Reporting

- BC63. Many public sector entities have asset management plans that facilitate the proper management of an item of property, plant, and equipment over its life cycle. These asset management plans are usually developed by qualified experts and focus on the operational aspects of the item of property, plant, and equipment.
- BC64. The IPSASB noted that, where these asset management plans are kept up to date by qualified experts and the information is reliable, these plans could provide detailed information relevant for accounting for property, plant, and equipment.
- BC65. The IPSASB developed implementation guidance to clarify when asset management plans might provide information useful for financial reporting purposes when accounting for property, plant, and equipment (see paragraphs IG35-IG36).

Impairment

Liabilities for Future Preservation/Maintenance of Heritage and Infrastructure Assets

- BC66. The IPSASB considered whether an entity’s intention to preserve and/or maintain heritage and infrastructure assets could give rise to liabilities. For a liability to exist the entity must have an unavoidable obligation (i.e. little or no realistic alternative to avoid). An obligation must be to an external party. An entity cannot be obligated to itself.
- BC67. While acknowledging that entities who hold heritage and infrastructure assets often intend to preserve and/or maintain them and there may be expectations on the entity to do so, the IPSASB concluded that neither intentions nor expectations are sufficient to establish a present obligation because an entity does not have an unavoidable present obligation to incur future expenditure.

Therefore, unless arrangements are in place that create an obligation to an external party for the entity to preserve and/or maintain heritage and infrastructure assets, no liability exists arising from the entity's plan and/or intention to do so.

Impairment of Heritage and Infrastructure Assets

- BC68. The IPSASB considered whether sufficient guidance existed on whether an infrastructure asset network or system is impaired when one part becomes damaged or inoperable. The IPSASB also considered whether additional guidance is needed to address the impairment of heritage assets.
- BC69. The IPSASB decided no additional guidance is necessary because sufficient authoritative impairment guidance exists in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, to adequately address the impairment of both heritage and infrastructure assets, including guidance for entities to determine when a network is impaired.

Under-Maintenance of Assets

- BC70. The IPSASB considered the issue that guidance did not articulate whether “backlog maintenance” or “deferred maintenance” should be recognized.
- BC71. The IPSASB decided not to use the terms, “backlog maintenance” or “deferred maintenance” because the terms have several interpretations and applications. The IPSASB clarified that the issue highlighted by constituents related to the “under-maintenance of assets”.
- BC72. Even though IPSAS 17 principles are clear on the accounting for assets that are “under-maintained”, the IPSASB added implementation guidance to clarify the accounting for “under-maintenance of assets” in IPSAS 45 (see paragraphs IG37-IG40).

Recoverable Amount

- BC73. IAS 16 defines recoverable amount as “the higher of an asset's fair value less costs of disposal and its value in use.” IPSAS 45 refers to the IPSAS 26 definition of recoverable amount which is defined as “the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use.” The definition in IPSAS 17 is the same as in IPSAS 26 but differs slightly from the definition in IAS 16. The IPSASB is of the view that the definition in IPSAS 26 is appropriate for use in IPSAS 45.

Derecognition

Derecognition of Infrastructure Assets

- BC74. The IPSASB considered whether sufficient derecognition guidance with respect to accounting for infrastructure assets existed. The IPSASB noted the derecognition issue arises because parts of infrastructure assets are constantly replaced and there could be a lack of detailed accounting records to support the derecognition of the carrying amounts of the parts that are replaced.
- BC75. The IPSASB decided not to add additional derecognition guidance in IPSAS 45 because sufficient authoritative derecognition guidance exists and the challenges identified by constituents when accounting for derecognition of parts of infrastructure assets appear administrative and related to record keeping.

Presentation—Display and Disclosure**Heritage: Focus on Information in the Financial Statements**

- BC76. The IPSASB noted that some jurisdictions disclose supplementary information about heritage assets as a substitute for recognizing heritage assets in the financial statements. Supplementary disclosures may include qualitative information that is not commonly included in the financial statements. This type of information could be useful for broader accountability purposes such as reporting on an entity's heritage-related service performance.
- BC77. The IPSASB concluded that it would focus on guidance related to the financial statements on the basis that the *Recommended Practice Guidelines* (RPGs) provide sufficient guidance for reporting supplementary information about heritage assets outside of the financial statements. The RPGs allow entities to align heritage-related supplementary information to the specific information needs arising from their heritage holdings, heritage-related objectives, and national or local context.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

IG1. **Apply IPSAS 45, *Property, Plant, and Equipment*:** When assessing control, an entity applies IPSAS 45's application guidance on control assessment contained in paragraphs AG13-AG15. Paragraph AG13 states that an entity controls the resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. Paragraph AG14 identifies the indicators of control as follows:

- (a) Legal ownership;
- (b) Access to the resource, or the ability to deny or restrict others to access the resource;
- (c) The means to ensure that the resource is used to achieve its objectives; or
- (d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

IG2. **Control over tangible items:** This implementation guidance focuses on control over items of property, plant, and equipment, where the resource is represented by a tangible item. Intangible assets arising from a loan, lease or other type of "right to use" are not addressed in this implementation guidance because they are outside of IPSAS 45's scope.

IG3. **Apply professional judgment:** The entity applies professional judgment to the facts of each situation when:

- (a) Assessing the existence of indicators of control; and
- (b) Reaching a view on whether or not control exists.

Control of Land Under or Over Property, Plant, and Equipment

Property, plant, and equipment can be built on land that is fundamental to the operation of the item but is owned by another entity. For example, State or Municipal Governments may construct road networks on land that is owned by another level of government. Should the entity that controls the property, plant, and equipment also recognize the land?

IG4. Where an item of property, plant, and equipment is built on land owned by another level of government, legal ownership of that land will not be held by the entity constructing the property, plant, and equipment. However, legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits or service potential that may flow from it.

IG5. When assessing whether land, owned by another level of government, under an item of property, plant, and equipment is controlled by the entity, the entity considers the rights it has to continue to operate the item of property, plant, and equipment. If the ongoing operation of the item of property, plant, and equipment is dependent on the other level of government continuing to grant the entity access to the land, it is unlikely the entity controls the land.

Control over Items in a Heritage Collection

Does an entity have control over items in its heritage collection, when it only has the right to hold the items temporarily, for a defined period under an agreement (or agreements) with another entity (or entities) or individual (group of individuals)?

IG6. No. The entity does not have control over these items in its heritage collection. Applying the application guidance in IPSAS 45 and professional judgment to the facts of the situation the entity does not have control over the resource represented by the items. This is indicated by the entity only holding the item temporarily, for a defined period. The entity does not have the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives. However, another Standard could apply, for example one that addresses leases or similar arrangements, which includes intangible rights to use a tangible resource within its scope.

Does an entity have control over items in its heritage collection, when it does not have legal ownership but has the right to hold the items for an indefinite period through an arrangement that both parties to the agreement understand to be open-ended?

IG7. Yes. The entity has control over these items in its heritage collection. In applying the application guidance in IPSAS 45 and professional judgment to the facts of the situation the entity has control over the resource represented by the items. This is because it has the ability to use the resource or direct other parties about their use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Does an entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?

IG8. Yes. The entity still controls items in its heritage collection when it holds them in storage (for example, in a warehouse or research laboratory) instead of displaying them to the public. The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items. In applying the application guidance in IPSAS 45 and professional judgment to the facts of the situation the entity has control over the resource represented by the items. This is because it has the ability to use the resource or direct other parties about their use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Recognition**Treatment of Subsequent Expenditure on Unrecognized Heritage Assets**

Should an entity capitalize subsequent expenditure on an unrecognized heritage asset when the expenditure meets IPSAS 45's recognition principle?

IG9. Yes. A reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized heritage asset where that expenditure meets IPSAS 45 recognition principle.

Capitalization Threshold for Costs

What factors should be considered when choosing a capitalization threshold?

IG10. IPSAS 45 paragraph 7 establishes the recognition principle for determining whether costs should be recognized as an asset, i.e., “capitalized.” Paragraph 7 states that the cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:

- (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- (b) The cost or current value of the item can be measured reliably.

IG11. In practice, entities expense some costs that meet this recognition principle, because they fall below a “capitalization threshold,” established by management. Capitalization thresholds assume application of the materiality principle. As such, not all property, plant, and equipment with useful lives extending beyond a single reporting period will be capitalized. Many can be expensed without having a material impact on the information reported in the financial statements. Capitalization thresholds guide entities on whether costs should be capitalized and included in the statement of financial position or expensed and included in the statement of financial performance.

IG12. Factors to consider when setting capitalization thresholds include:

- (a) **Meeting the information needs of users:** Capitalization thresholds should result in reported information that meets the needs of external users of the financial statements. Capitalization thresholds should result in reported amounts for recognized assets that achieve the qualitative characteristics, including relevance and representational faithfulness.
- (b) **Materiality:** Capitalization thresholds should be such as to ensure that material asset values are captured. Appropriate capitalization thresholds guide entities to capitalize items that would materially impact on the information about assets and expenses in the financial statements, and expense those items that would not materially impact on that information.
- (c) **Cost-benefit:** When capitalization thresholds are set at appropriate levels, they reduce the cost of tracking large numbers of small-value items, while still conferring the benefits of meeting users’ needs and capturing material values. If a capitalization threshold is set too low, this could create significant additional costs – in the form of work for staff - without any benefit.

IG13. An entity should consider whether different classes of property, plant, and equipment need different capitalization thresholds.

IG14. Capitalization thresholds are often applied to individual items rather than to groups of similar items. However, the cumulative effect on a group of similar assets should be considered when relevant. This may be the case when a group of assets are acquired at the same time as part of a single project, for example assets acquired for an extensive building program.

Subsequent Measurement after Recognition**Current Value Model***Current Value Measurement of Heritage Assets*

Do restrictions on the use of heritage assets affect an entity's ability to derive its current value either on initial recognition (if, for example, the asset is donated), or subsequently (when the entity subsequently revalues its heritage assets)?

IG15. No. Restrictions on the use of heritage assets do not affect an entity's ability to derive [current values] for them. However, restrictions will need to be taken into account when deriving a [current value].

Where a heritage asset is viewed as irreplaceable does this affect an entity's ability to derive its current value?

IG16. No. A view that a heritage asset is irreplaceable does not affect an entity's ability to derive a current value.

IG17. Many heritage assets are viewed as irreplaceable from a heritage perspective. From a financial reporting perspective, the ability to derive a current value involves the ability to ascertain values for equivalent assets. "Equivalent assets" do not have to be identical assets when deriving a current value. Where an entity needs to estimate a current value for a heritage asset, it will need to consider information available on current values, even when, from the perspective of its heritage nature, the asset is irreplaceable. Obtaining current values for heritage assets may be complex and difficult. It could involve professional judgment to reach an estimate that is derived from a range of possible values. These measurement challenges are a normal part of financial reporting, and not unique to the valuation of heritage assets. The need for professional judgment, expert valuation advice, and/or the use of estimates to derive a current value is not a sufficient basis for concluding that a current value cannot be derived.

IG18. A consideration of the following factors will support an entity's assessment of whether it can derive a current value for a heritage asset:

- (a) Replacement of service potential: A current value is likely to be derivable, if the service potential of the heritage asset could be replaced, if necessary, through either:
 - (i) Purchasing a similar asset; or,
 - (ii) Reproducing or reconstructing the asset, with reproduction applying to either the whole asset or parts of the asset on either an "as needed" basis or through application of a replacement cycle for the asset.

By contrast, the heritage asset's current value may not be derivable if its service potential cannot be replaced through purchasing another, similar asset or through reproduction.

- (b) Significance of the heritage asset: A current value is likely to be derivable, if the heritage asset's service potential mainly relates to its ability to represent an era or type, such that another heritage asset of the same era or same type could be similarly representative.

By contrast, a heritage asset's current value may not be derivable if its service potential is independent of the heritage asset's ability to represent an era or type and depends, instead, on something unique and specific to that heritage asset.

Valuing Land Under or Over Infrastructure Assets

How should the land under or over infrastructure assets, such as land under roads or railways, be valued because the related infrastructure assets on top of the land are specialized and held for operational capacity?

IG19. IPSAS 45 is clear that:

- (a) Land should be separately accounted for. This requirement applies to all land, including land under or over infrastructure assets; and
- (b) Land under or over infrastructure assets accounted for under the current value model should be valued at current operational value or fair value. Because the infrastructure asset itself is a specialized asset, it will often be the case that the market approach will be challenging to apply, and that the asset will be more easily valued using the cost approach.

IG20. [draft] IPSAS [X], *Measurement* defines the cost approach as a measurement technique that reflects the amount that will be required currently to replace the service capacity of an asset (often referred to as the current replacement cost).

IG21. The replacement cost of the land is based on the current value of the land based on the existing site. For example, if the road runs through agricultural land, then the current value of the land under that section of the road will be agricultural and if the road runs through an industrial area, then the current value placed on the land under that section of the road will be industrial.

Frequency of Revaluation of Property, Plant, and Equipment

How often should property, plant, and equipment be revalued?

IG22. Paragraph 29 of IPSAS 45 requires entities that adopt the revaluation model to measure assets at a revalued amount that does not differ significantly from that which would be determined using current value at the reporting date. Paragraph 33 of IPSAS 45 specifies that the frequency of revaluations depends upon the changes in current value of the items of property, plant, and equipment being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that adopt the revaluation model to determine whether carrying amounts differ materially from the current value as at reporting date.

IG23. An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's current value and revalues the asset to that amount.

IG24. In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

- (a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;

- (b) Where a market exists for the assets of the entity, market values are different from their carrying amounts;
- (c) During the period, a price index relevant to the asset has undergone a material change;

Internal sources of information

- (d) Evidence is available of obsolescence or physical damage of an asset;
- (e) Significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favorable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and
- (f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

IG25. The list in paragraph IG24 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current value as at the reporting date.

[New] Classes of property, plant, and equipment

[New] Can a reporting entity have more than one class of property, plant, and equipment for assets of similar nature, when the primary objective why these are held is different (i.e., financial capacity and operational capacity)?

IG26. [New] Yes. For example, a public sector hospital, with both an income-generating wing and non-income generating wing, could hold certain magnetic resonance imaging (MRI) machines for their financial capacity while others are held for their operational capacity. This may result in the entity identifying two classes of MRI machines and presenting information using fair value for one class, located in the income generating wing, and current operational value for the other class, located in the non-income generating wing.

Depreciation

Heritage Assets' Useful Lives

What are the main factors to consider when assessing whether a heritage asset has an indefinite useful life?

IG27. Paragraph 55 states that there is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. For a heritage asset to have an indefinite useful life, an analysis of the relevant factors should show that it is reasonable for the entity to consider that there is no foreseeable limit to the period over which it is expected to provide service potential or be used operationally to generate net cash inflows for the entity. Paragraph 57 states that estimates of useful life should reflect evidence at the time the estimate is made and realistic, rather than optimistic, projections of the relevant factors.

IG28. Paragraph AG39 states that a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset is an example of an asset that could have an indefinite useful life.

IG29. The main factors to consider when assessing whether a heritage asset has an indefinite useful life are:

- (a) **Period providing service potential:** The entity should expect that, to the best of its knowledge, the period over which the heritage asset will continue to provide service potential and/or future economic benefits will continue indefinitely. The assets' heritage value for future generations should be demonstrable, such that it is reasonable to expect that its heritage value will continue indefinitely.
- (b) **Usage:** The usage of the heritage asset should not result in physical wear and tear to the heritage asset.
- (c) **Preservation:** The entity should be able to describe the actions it has taken in the past and plans to continue to take to preserve the heritage asset, including adequate protection of heritage assets from the natural elements, where relevant. Preservation plans should include information on the likely availability of staff and financial resources to carry out the entity's preservation activities.

IG30. Entities apply professional judgment to estimate the useful life of an asset with reference to experience with similar assets. If circumstances change, the entity will need to consider whether the heritage asset still has an indefinite useful life. If the heritage asset is found to have a finite useful life, the entity will then treat it as a depreciable asset and account for it accordingly.

Identifying Parts of Infrastructure Assets that Should be Separately Depreciated

What should be considered when identifying parts of infrastructure asset networks or systems for financial reporting purposes?

IG31. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part that will have a material impact or effect on determining the annual depreciation expense.

IG32. Property, plant, and equipment including infrastructure assets do not require separate recognition beyond the level required for financial reporting purposes. IPSAS 45 requires:

- (a) Items with a cost or value that is significant in relation to the total cost of the item shall be depreciated separately; and
- (b) Significant parts of property, plant, and equipment to be grouped with other significant parts that have a similar useful life and / or depreciation method when determining the depreciation charge.

IG33. Infrastructure assets are networks or systems that comprise a number of assets. Each of those assets or groups of similar assets may be a separate unit of account and may have parts.

IG34. Judgment is required in determining whether those parts of the assets or similar group of assets that make up the infrastructure asset networks or systems are significant in relation to the whole infrastructure asset network or system when determining whether or not to treat them separately. For financial reporting purposes, the following indicators can be helpful in identifying significant parts of an item of property, plant, and equipment:

- (a) Parts should be separately identifiable and measurable;
- (b) Parts should have significant value in relation to the asset; and
- (c) Parts should have different estimated useful lives.

IG35. The entity must consider the facts and circumstances of its transaction as a whole, and materiality to determine the significant parts for the purposes of calculating depreciation.

Use of Information in the Asset Management Plans for Financial Reporting

Can asset management plans provide information useful for accounting for property, plant, and equipment?

IG36. Yes. Information in asset management plans may be used to account for property, plant, and equipment when the items of property, plant, and equipment are maintained in accordance with a sufficiently detailed asset management plan that is subject to effective internal controls and has reliable and up to date information.

IG37. Information from asset management plans can be a useful source of input to:

- (a) Calculate depreciation. Paragraphs 50, 60, AG35 and AG37 indicate that depreciation reflects the consumption of the asset's future economic benefits or service potential by allocating the depreciable amount using a systematic basis over its useful life. Asset management plans may contain information on:
 - (i) The asset's expected useful life - Asset management plans may include information about the expected useful life based on its design/function/expected use; and
 - (ii) Expected patterns of asset consumption - Asset management plans may include information about the condition and maintenance history;
- (b) Determine the significant parts of property, plant, and equipment. Paragraphs 44 and AG31 stipulate that an entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part. Asset management plans may include information useful to determine or identify these significant parts of property, plant, and equipment which could in turn be useful to calculate depreciation, impairment, and/or facilitate derecognition of items of property, plant, and equipment;
- (c) Calculate the estimated costs to maintain, restore and refurbish assets; and
- (d) Determine whether there is an indication that property, plant, and equipment may be impaired. The relevant guidance for impairment is available in paragraph 62 of this Standard and IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*.

Impairment

Under-Maintenance of Assets

What is under-maintenance of assets?

IG38. Under-maintenance of assets occurs when the level of maintenance of an asset is insufficient to maintain the service potential or the useful life of the asset.

Could under-maintenance impact the measurement of items of property, plant, and equipment that require constant maintenance such as infrastructure assets?

IG39. Yes. Under-maintenance may affect the measurement of property, plant, and equipment. It may be an indicator for impairment and may also impact the residual value and useful life of the property, plant, and equipment.

IG40. The relevant guidance for impairment is available in paragraph 62 of this Standard and IPSAS 21 or IPSAS 26 and the relevant guidance for assessing the residual value and useful life of property, plant, and equipment is available in paragraphs 51 and 52 of this Standard.

IG41. No liability should be recognized when property, plant, and equipment are not adequately maintained because IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* is clear there is no present obligation to recognize maintenance expenses that will be incurred in the future.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

Control of Land under or over Property, Plant, and Equipment

Example 1-Case A (see paragraphs IE1-IE3) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has legal ownership of the land and the right to direct access to land and to restrict or deny access of others to land.

- IE1. Provincial (State) Government enters into a long-term binding arrangement with the National Government to construct a road that passes through a National Park. The land is legally owned by the National Government and it has the title deeds of the land. The Provincial Government constructs a 200-mile road which connects two of its largest cities, City X and City Y. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities.
- IE1. The Provincial Government concludes that the National Government controls the land because the National Government:
- (a) Legally owns the land;
 - (b) Retains all the rights to the land, as it can cancel the binding arrangement at any point in time; and
 - (c) Retains the ability to generate economic benefits arising from selling the land. The National Government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.
- IE2. While the province has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the national government is not receiving any service potential or economic benefit from the land while the road is in use, the entity concludes this is insufficient to support its control of the land. Other indicators support control being retained by the national government.

Example 1-Case B (see paragraphs IE4-IE5) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has unlimited and unrestricted use of the land.

- IE3. The facts and circumstances remain the same except the land is transferred to the Provincial Government and the latter has unlimited and unrestricted use of the land and does not legally own the land.
- IE4. Even though the Provincial Government does not legally own the land, the Provincial Government concludes it controls the land because it:
- (a) Has the right to direct access to the land and to restrict or deny access of others to land because it has unlimited and unrestricted use of the land. The Provincial Government can decide how the land will be used;
 - (b) Has the ability to generate benefits in the form of economic benefits or service potential from the use of the land; and

- (c) Ensures the land is used to achieve the Provincial Government's service potential objective whereby the land will allow the Provincial Government to build a road that will transport vehicles and goods between the two cities.

Disclosures

Example 2 (see paragraph IE6) illustrates the disclosure principle.

IE5. The Department of the Interior is a public sector entity that controls a wide range of property, plant, and equipment, and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Statement of Financial Position for the year ended 31 December 20X1 and illustrate the principal disclosures required in accordance with this Standard.

Notes

1. Land

- (a) Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the Office of the National Valuer, an independent valuer.

- (b) Restrictions on Titles:

Five hundred hectares of land (carried at 62,500 currency units) is designated as national interest land and may not be sold without the approval of the legislature. Two hundred hectares (carried at 25,000 currency units) of the national interest land and a further two thousand hectares (carried at 250,000 currency units) of other land are subject to title claims by former owners in an international court of human rights and the Court has ordered that the land may not be disposed of until the claim is decided; the Department recognizes the jurisdiction of the Court to hear these cases.

2. Buildings

- (a) Buildings consist of office buildings and industrial facilities at various locations.
- (b) Buildings are initially recognized at cost, but are subject to revaluation to fair value on an ongoing basis. The Office of the National Valuer determines fair value on a rolling basis within a short period of time. Revaluations are kept up to date.
- (c) Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.
- (d) The Department has entered into five contracts for the construction of new buildings; total contract costs are 250,000 currency units.

3. Machinery

- (a) Machinery is measured at cost less depreciation.
- (b) Depreciation is calculated on a straight-line basis over the useful life of the machine.
- (c) The machinery has various useful lives:

Tractors: 10 years

PROPERTY, PLANT, AND EQUIPMENT

Washing Equipment: 4 years

Cranes: 15 years

- (d) The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings – the contracted cost is 100,000 currency units.

4. Furniture and Fixtures

- (a) Furniture and fixtures are measured at cost less depreciation.
- (b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.
- (c) All items within this class have a useful life of five years.

PROPERTY, PLANT, AND EQUIPMENT

Reconciliations (in '000 of currency units)								
	Land		Buildings		Machinery		Furniture and Fixtures	
Reporting Period	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	–	–	250	100	120	200	20	100
Disposals	–	–	150	40	60	80	20	–
Depreciation (As per Statement of Financial Performance)	–	–	160	180	145	135	50	50
Revaluations (net)	250	225	–30	–50	–	–	–	–
Closing Balance (As per Statement of Financial Position)	2,500	2,250	2,000	2,090	1,000	1,085	150	200
Sum of Revaluation Surpluses (Paragraph 77(f))	750	500	250	250	–	–	–	–
Sum of Revaluation Deficits (Paragraph 77(g))	25	25	380	350	–	–	–	–
Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	–	–	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Comparison with IAS 16

IPSAS 45, *Property, Plant, and Equipment* is based on IAS 16 (2003), *Property, Plant and Equipment*. The main differences between IPSAS 45 and IAS 16 are that:

[To be presented at the December 2022 meeting]

Comparison with GFS

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

[To be presented at the December 2022 meeting]

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