

MEASUREMENT — APPLICATION PHASE

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Analysis of COV Applicability to IPSAS 12, *Inventories*

Analysis

- There is no reason to depart from existing measurement guidance when inventories are held for their financial capacity.
- Inventories held for distribution at no or for a nominal charge are public sector specific and warrant a departure from IFRS alignment.
- Current replacement cost and COV share key principles (entry value and existing asset).
- COV in IPSAS 46 reflects the IPSASB updated measurement methodology for assets which the entity holds for their operational capacity.

Recommendation

- IPSAS 12 should be amended to reflect the applicability of COV at initial measurement for non-exchange transactions and when determining the subsequent measurement for inventories held for:
 - Distribution at no charge or nominal charge; or
 - Consumption in the production process of goods to be distributed at no charge or for a nominal charge

IPSAS 21 EDUCATION SESSION

IPSAS 21 Background and Scope

- **Publication and subsequent changes**

- Issued in December 2004
- A number of subsequent amendments and significant change in 2016

- **Scope**

- Non-Cash-Generating Assets
- Property, Plant, and Equipment (PP&E) on Revaluation Model initially scoped out
- Scope broadened in 2016 to include PP&E on Revaluation Model
- Impairments of cash-generating assets originally directed to IAS 36, *Impairment of Assets*
- IPSAS 26, *Impairment of Cash-Generating Assets* issued in 2008

Key Definitions

- **Impairment:** Loss in future economic benefits or service potential of asset over and above depreciation
- **Non-cash-generating asset:** defined by reference to cash-generating assets
- **Cash-generating assets:** Primary objective of generating a commercial return. Goodwill considered a cash-generating asset for impairment purposes
 - Guidance on distinguishing cash-generating and non-cash-generating assets. Presumption that assets are non-cash-generating.
- **Recoverable service amount:** higher of a non-cash-generating asset's fair value less costs to sell and its value in use
 - Adaptation of terminology from IPSAS 36
- **Fair value less costs to sell:** amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal
- **Value in use of a non-cash generating asset:** present value of the asset's remaining service potential
 - Replacement cost
 - Restoration cost
 - Service units approach

The Mechanics

- Annual assessment of indications of impairment triggering determination of recoverable service amount
 - External and internal indications
 - Minimum list not exhaustive
- More rigorous requirements for certain intangible assets
- Impairment loss arises if carrying amount is more than both fair value less costs to sell and value in use of a non-cash-generating asset
 - Often not necessary to determine both measures
- Reversals of impairment
 - Annual assessment of indications
- Redesignations
 - Clear evidence
 - No automatic triggering of impairment test or test for reversal
- Disclosures

Main Differences Between IPSAS 21 AND IAS 36

- a) Method of measurement of value in use of a non-cash-generating asset under IPSAS 21 different from that for cash-generating asset under IAS 36: present value of the asset's remaining service potential v. present value of future cash flows from the asset.
- b) IPSAS 21 does not include a change in the market value of the asset as a black letter Indication of impairment.
- c) IPSAS 21 includes a decision to halt the construction of an asset before completion as black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss.
- d) IPSAS 21 deals with impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- e) 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.

Impairment: Fair Value and Recoverable Service Amount

Analysis

- Value premise for IPSAS 46 definition of fair value based on highest and best use assumption.
 - Differs from fair value in IPSAS 17, which incorporates depreciated replacement cost, restoration cost and service units approach for specialized assets
- Fair value unlikely to be relevant for specialized assets
 - Cost approach likely to be used for COV
- Fair value may provide relevant information for non-specialized assets
 - Market approach will be used
 - For example where an office building is too big for current service requirements but can be sold to a market participant

Recommendation

- Retain fair value less costs to sell as component of recoverable service amount
- Revised definition of fair value less costs to sell based on IPSAS 46 definition of, and premise underpinning, fair value
- In many cases, particularly for specialized assets fair value will not be relevant. Guidance and examples to make this clear.

Impairment: Retention or Replacement of Value in Use of a Non-Cash-Generating Asset in Recoverable Service Amount

Analysis

- **Options for Way Forward**
 - a) Retain current approach in IPSAS 21
 - b) Use current operational value (COV) as surrogate
 - c) Adopt COV directly
- **Benefits and Disbenefits**
 - a) Current approach and no indication of problems but
Terminology inconsistent with IPSAS 26 and IAS 36
Current requirements inconsistent with standards-level requirements and conceptual guidance
 - b) Adequate equivalent of value in use of a non-cash-generating asset but terminology inconsistencies as for a)
 - c) Consistency with IPSAS 46
Cost-benefit advantages for entities on current value model
Impairment complements IPSAS 45 requirements

Recommendation

- COV should replace “value in use of a non-cash-generating asset” as a component of recoverable service amount in its own right.
- Recoverable service amount is higher of fair value less costs to sell and COV.
- Impairment only arises if both measures less than carrying amount.

Analysis of COV Applicability to IPSAS 40, *Public Sector Combinations*

Analysis

- Scope of IPSAS 40 is the bringing together of separate operations into one public sector entity.
- The value derived from the application of COV is the amount the entity would pay for the remaining service potential of an asset.
- The economic substance of the transaction in the scope of IPSAS 40 is broader than the measurement of an asset.
- The application of the modified pooling of interest method and the acquisition method present information that is useful in holding the entity to account and for decision-making purposes because it accounts for the bringing together of separate operations into one public sector entity.

Recommendation

- No amendments are recommended for IPSAS 40.
- The applicability of COV should be retained in the individual IPSAS.

Analysis of COV Applicability to IPSAS 32, *Service Concession Arrangements: Grantor*

Analysis

- Service concession assets are used to provide service potential (i.e. operational capacity), as defined in IPSAS 32.
- COV was developed to measure the current value of assets held for their operational capacity (i.e. service potential).
- Service concession assets' subsequent measurement is in accordance with IPSAS 45, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*.
- Consistency in the application of principles should be maintained to ensure comparability.

Recommendation

- COV is an applicable subsequent current value measurement basis for service concession assets.

Analysis of COV Applicability to IPSAS 43, *Leases*

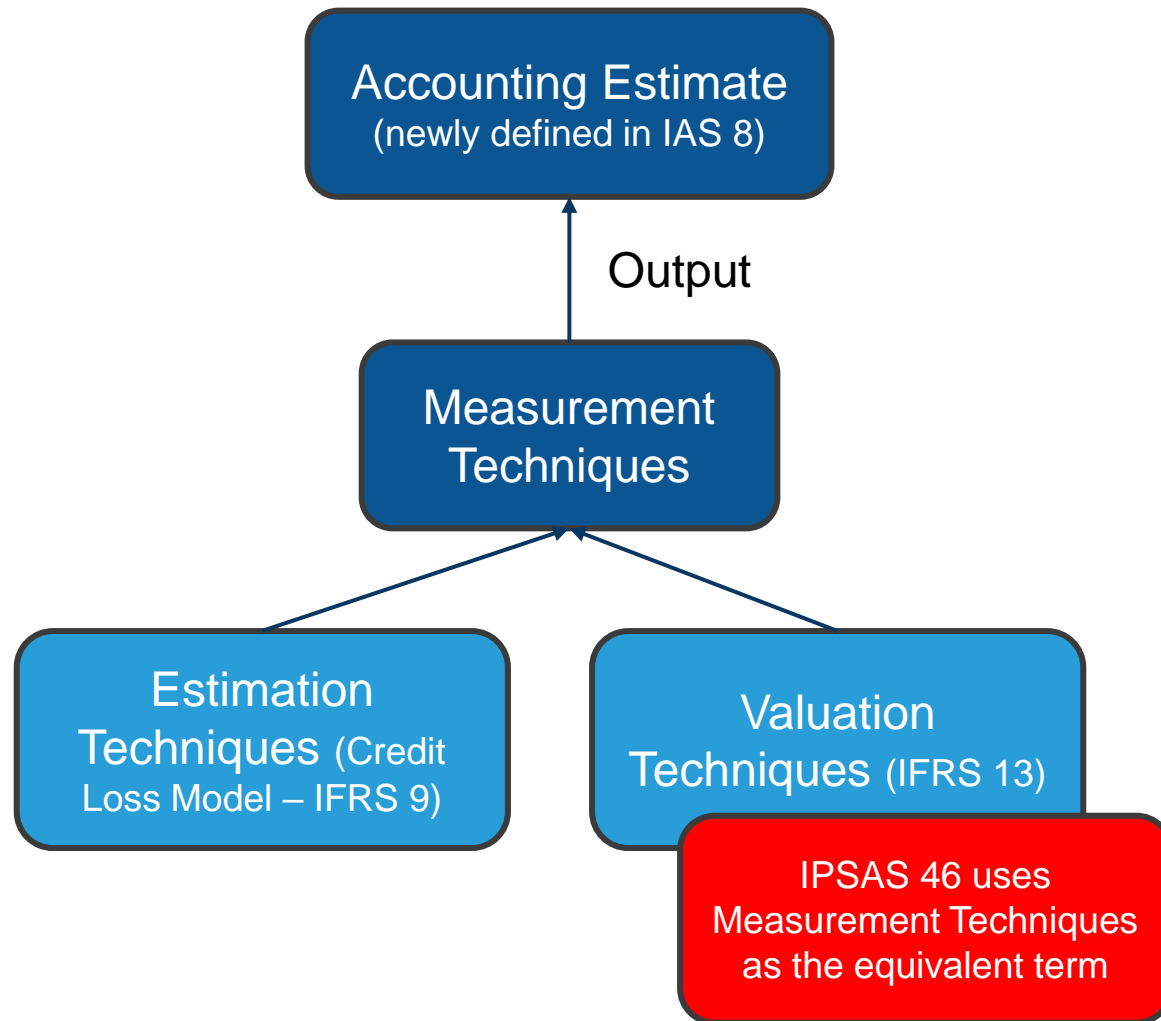
Analysis

- A lessee can use assets under a lease contract to provide services potential.
- COV was developed to measure the current value of assets held for their operational capacity (i.e. service potential).
- IPSAS 45 guidance requires tangible assets held for their operational capacity to be measured at COV when an entity elects the current value model.
- Consistency in the application of principles should be maintained to ensure comparability.

Recommendation

- COV is an applicable subsequent current value measurement basis for leases, where the lessee elects to apply the current value model in accordance with IPSAS 45.

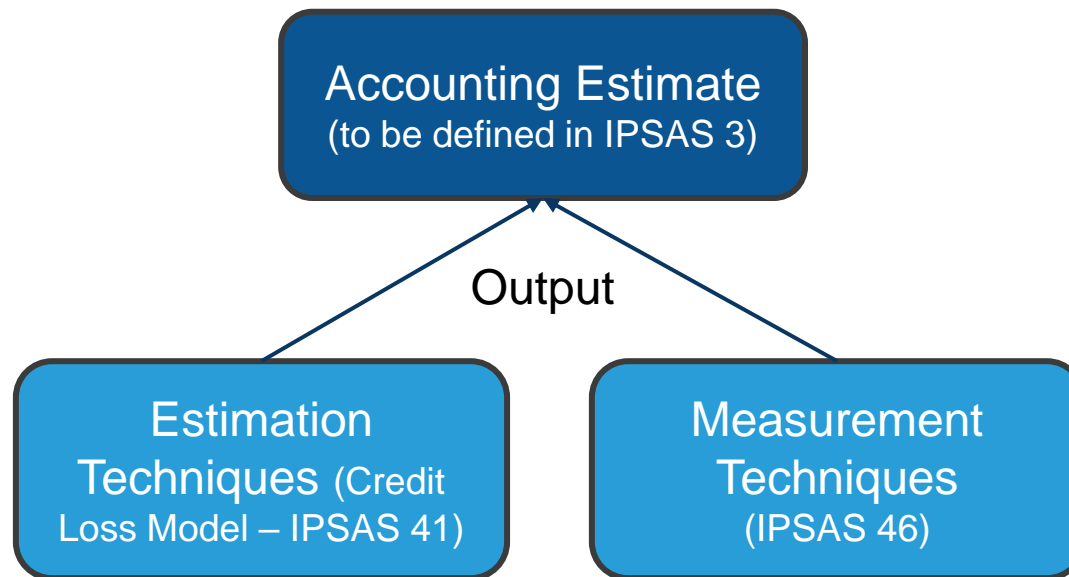
Definition of Accounting Estimates and Consistent Application of the Term ‘Measurement Techniques’



- The amendment to IAS 8, the introduction of a definition of ‘accounting estimate’, is applicable and appropriate in the public sector.
 - Distinguish the two key concepts in IPSAS 3 – accounting policy and accounting estimate.
 - Clarify existing guidance and ensure consistency in principle application.
- Considered different options to amend IPSAS literature to reflect the amendment to IAS 8.

Definition of Accounting Estimates and Consistent Application of the Term 'Measurement Techniques'

Analysis



- Assessed the exposure of such an amendment to be more appropriate as part of the Measurement Application phase project instead of the Annual Improvements.

Recommendation

- Amend IPSAS 3 incorporating the definition of an 'accounting estimate', which aligns with IPSAS 46 terminology.
- Expose the improvement as part of the measurement application phase.



16