

MEASUREMENT APPLICATION PHASE

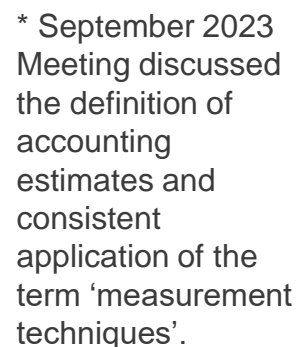
IPSASB Meeting – December 2023

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Project Roadmap



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

Analysis

- IPSAS 3 notes that a change in measurement basis is a change in accounting policy.
- In developing IPSAS 45, *Property, Plant, and Equipment* the IPSASB decided that an entity shall determine the current value of an asset based on the primary objective for which the entity holds the asset.
- A change from current operational value to fair value is appropriate when the objective for which the entity holds the asset has changed.

Recommendation

- Amend IPSAS 3 paragraph 40 to resolve the inconsistency with guidance in IPSAS 45.

Other Issues – IPSAS 12, *Inventories* and IPSAS 32, *Service Concession Arrangements: Grantor*

Analysis for IPSAS 12

- Materials or supplies to be consumed or distributed in the rendering of services at no charge or for a nominal charge:
 - As per the Conceptual Framework such inventories are held for their operational capacity.

Recommendation

- Current replacement cost should be replaced with current operational value for inventories held for their operational capacity.

Other Issues – IPSAS 12, *Inventories* and IPSAS 32, *Service Concession Arrangements: Grantor*

Analysis for IPSAS 12

- Replacement of current replacement cost (CRC) with current operational cost (COV) is not expected to present complexities that outweigh the benefits of applying COV:
 - CRC and COV share key principles;
 - IPSAS 46 includes guidance on how to derive COV, which will ensure consistent application of measurement basis; and
 - Alignment with IPSASB's updated measurement methodology

Recommendation

- Current replacement cost should be replaced with current operational value for inventories held for their operational capacity.

Other Issues – IPSAS 12, *Inventories* and IPSAS 32, *Service Concession Arrangements: Grantor*

Analysis for IPSAS 12

- Impact of introducing COV in IPSAS 12 and interplay with IPSAS 27, *Agriculture*:
 - Replacing CRC with COV does not impact the determination of the cost of agricultural produce harvested from biological assets, these continue to be in accordance with IPSAS 27, as per IPSAS 12.29 (i.e., fair value less cost to sell).

Recommendation

- Current replacement cost should be replaced with current operational value for inventories held for their operational capacity.

Other Issues – IPSAS 12, *Inventories* and IPSAS 32, *Service Concession Arrangements: Grantor*

Analysis for IPSAS 12

- Reference to ‘reporting date’ in CRC versus ‘measurement date’ in COV:
 - ‘Reporting date’ refers to the last day of the reporting period to which the financial statements relate, while ‘measurement date’ is the date at which the value of an asset or a liability is determined.
 - The ‘reporting date’ can be the ‘measurement date’.

Recommendation

- Current replacement cost should be replaced with current operational value for inventories held for their operational capacity.

Other Issues – IPSAS 12, *Inventories* and IPSAS 32, *Service Concession Arrangements: Grantor*

Analysis for IPSAS 32

- The scope of the Measurement Application phase is to evaluate the applicability of current operational value more broadly across IPSAS.
- The purpose of IPSAS 46, *Measurement* is the consistent application of measurement basis across IPSAS, as opposed to the determination of initial measurement across IPSAS.
- The level of analysis needed to amend the initial measurement in IPSAS 32 is better suited to a narrow scope project or a post-implementation review.

Recommendation

- The amendment of initial measurement in IPSAS 32 from fair value to transaction price is outside of the scope of the measurement application phase project.

Impairment of Non-Cash Generating Assets: Fair Value less Costs to Sell

Analysis

- Proposed that recoverable service amount is higher of current operational value and fair value less costs to sell
- Fair value less costs to sell based on IPSAS 46, *Measurement*, definition of and guidance on fair value.
- Most members supportive of retaining fair value less costs to sell at September meeting, but some reservations:
 - Unnecessary determination of fair value less cost to sell
 - Creation of 'fair value industry'
- Likely to be clear whether COV or FV is the key metric in determining recoverable service amount
- For entities on historical cost model determining COV or FV for impairment purposes not a change of accounting policy for subsequent measurement

Recommendation

- Example to demonstrate application of FV and COV in impairment
- Include fair value less costs to sell as a component of recoverable service amount

Impairment of Non-Cash Generating Assets: Depreciated Replacement Cost and Current Operational Value

Analysis

- In current IPSAS 21, Depreciated Replacement Cost (DRC) is main technique for estimating value in use of a non-cash-generating asset
- Current Operational Value (COV): Amount that an entity would pay for remaining service potential of an asset at the measurement date
- DRC: The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used state.
- In substance DRC = Cost Approach in COV
- Same accounting outcome as IPSAS 21
- Different terminology

Recommendation

- Current operational value is an appropriate measurement basis for recoverable service amount

Impairment of Non-Cash Generating Assets: Depreciated Replacement Cost and Restoration Cost

Analysis

- In current IPSAS 21 Restoration Cost a technique for estimating value in use of a non-cash-generating asset where asset has sustained physical damage
- Hybrid technique which requires estimation of DRC prior to subtraction of cost of restoring asset to pre-impaired state.
- *Staff View*: If asset damaged so that it cannot deliver a service at measurement date COV is zero (disregarding scrap value). Management intent should not be considered
- *Alternative View*: Viable method of accessing COV
- Staff proposed approach leads to higher impairment loss

Recommendation

- Restoration Cost is not retained in updated IPSAS 21

Impairment of Non-Cash Generating Assets: Depreciated Replacement Cost and Service Units Approach

Analysis

- In current IPSAS 21 Service Units Approach is a technique for estimating value in use of a non-cash-generating asset when significant long-term change in the extent or manner of use, including from the cessation or near cessation of demand,
- Hybrid technique that determines current replacement cost of original asset and then reduces that cost for reduced output
- *Staff View*: Go straight to COV of asset providing reduced service level
- *Alternative View*: Viable method of accessing COV
- Staff proposed approach leads to slightly higher impairment loss

Recommendation

- Service Units Approach is not retained in updated IPSAS 21

Applicability of COV at Initial and Subsequent Measurements for Leases at Market Terms and at Below-Market Terms for Right-of-Use Assets

COV was developed as a subsequent current value measurement basis for assets held for their operational capacity in their existing use, location, and current condition

Leases are contracts or part of contracts that convey the right to use an asset (underlying asset) for a period of time in exchange for consideration

Initial Measurement

Current Value Subsequent Measurement

IPSAS 16

IPSAS 45

At Market Terms

Present value of the lease payments that are not paid at the commencement date

Fair value measurement basis in the current value model

Current value model

Below Market Terms

Present value of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date

Applicability of COV at Initial and Subsequent Measurements for Leases at Market Terms and at Below-Market Terms for Right-of-Use Assets

COV was developed as a subsequent current value measurement basis for assets held for their operational capacity in their existing use, location, and current condition

Leases are contracts or part of contracts that convey the right to use an asset (underlying asset) for a period of time in exchange for consideration

	Initial Measurement	Subsequent Measurement	
		IPSAS 16	IPSAS 45
At Market Terms	COV is unnecessary	COV is not applicable	COV is applicable when the right of use asset is primarily held for its operational capacity
Below Market Terms			

Applicability of COV at Initial and Subsequent Measurements for Leases at Market Terms and at Below-Market Terms for Right-of-Use Assets

Analysis

- Initial measurement
 - IPSAS 46 purpose is the consistent application of measurement basis; and
 - IPSAS 43 and ED 84 included a specific measurement technique.
- Subsequent measurement
 - IPSAS 16, *Investment Properties*. These assets are not held for their operational capacity.
 - IPSAS 45, *Property, Plant, and Equipment*.
 - Whether an asset is owned or leased should not change the measurement guidance.
 - Measurement is dependent on the objective for which the entity holds the asset.

Recommendation

- COV is applicable for subsequent measurement of right-of-use held primarily for operational capacity where the lessee elects to apply the current value model in accordance with IPSAS 45.