First-Time Adoption of Accrual Basis IPSASs

Agenda Item 6

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First Time Adoption of Accrual Basis IPSASs

- Objective of agenda item to discuss:
  - Assessment of transitional accounting issues
  - Issues Paper
  - Proposed Exposure Draft on *First-Time Adoption of Accrual Basis IPSASs*
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Assessment of transitional accounting issues relating to financial instruments
• Classification in accordance with substance and definition
• Non-derivative FI → liability and net asset/equity component
• Split compound FI into liability and equity component
  – on transition date where liability component outstanding (or not)
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Assessment of Proposal for Transitional Accounting Issues: IPSAS 28

- Proposal for Exposure Draft:
  - Apply IPSAS (IFRS) transitional provisions
    - Retrospective application of presentation requirements
    - Compound FI → if liability is outstanding retrospective application
    - No separation of compound instrument if liability not outstanding
• IPSAS 29 requires retrospective application
• Recognition at fair value
• After initial recognition - classification and impairment
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Assessment of Proposal for Transitional Accounting Issues: IPSAS 29

• Issues for consideration:
  – Recognition FI at date of transition
  – Measurement at date of transition → historical FV
  – Classification → based on historical facts or facts on transition date
  – Derecognition → derecognized in past but not meeting IPSAS 29 criteria on date of transition
  – Hedge accounting → how to designate instruments on transition
• Proposal for Exposure Draft:
  – Initial recognition
    • Three year relief for recognition and classification
  – Measurement
    • Apply IPSAS 29 transitional provisions (similar to IFRS)
  – Classification, derecognition and hedge-accounting
    • Apply IFRS 1 transitional provisions
  – Impairment
    • Apply prospectively if three year relief granted
• Proposal for Exposure Draft
  – No transitional relief for disclosures relating to:
    • Classes
    • Categories
    • Reclassification
    • Derecognition
    • FV measurement
    • Defaults and breaches
    • Classes of financial instruments
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Assessment of Proposal for Transitional Accounting Issues: IPSAS 30

• Proposal for Exposure Draft
  – Nature and extent of risk prospectively
  – Comparative info need not to be presented
  – If three year relief period granted → disclosure when recognized
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Issues paper
Issues Paper

• General matter 1
  – Expectation gap around more detailed guidance and assistance
  – Explain in introductory material of Exposure Draft
    • Clarify objective of project
    • Outline existing material available
    • Other initiatives may be considered in future

• Members view on inclusion of explanation in ED
Issues Paper

• Specific matter 2 – Deemed cost for assets
  – Deemed cost for inventory acquired in exchange when no cost information
  – Limitation not discussed for other assets
  – No restriction from IFRS 1

• Members view on:
  – Use of deemed cost for all assets irrespective of cost information
  – Proposed wording
Issues Paper

• Specific matter 3 – Determining a deemed cost for assets
  – Previous GAAP revaluation for PPE (FV/cost/depreciated cost)
  – Use principles in existing IPSASs for fair value
  – IPSAS 16 market based but IPSAS 12 limited guidance

• Members view on other measurement alternatives:
  – Inventory → current replacement cost
  – Investment property → depreciated replacement cost
Issues Paper

• Specific matter 4 – Deemed cost when 3 years elected
  – What point during 3 year transition should it be determined?
  – Once determined should it be adjusted retrospectively?

• Members view on:
  – Point at which deemed cost should be determined
  – Adjusting value of asset retrospectively (or not)
  – Opening accumulated surplus/deficit to be adjusted
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Allowing a three year relief period

Date of transition: 1 January 2010

Year 1:
- Start of first reporting period: 31 December 2009
- End of first reporting period: 31 December 2010

Year 2:
- Start of second reporting period: 1 January 2011
- End of second reporting period: 31 December 2011

Year 3:
- Start of third reporting period: 1 January 2012
- End of third reporting period: 31 December 2012
Specific matter 5 – Impact of relief on leased assets
  - Delayed recognition of leased assets when 3 year relief
  - Leased assets delayed → impact on lease liabilities

Members view on:
  - Impact of relief period on lease assets vs leased liabilities
  - Proposed wording
• Specific matter 6 – Impact of relief on provisions relating to assets
  – No relief provided for liabilities and provisions
  – Initial estimates of cost of dismantling and removing
  – 3 year relief period impacts recognition

• Members view on:
  – Providing relief for recognition of liability
  – Proposed wording
• **Specific matter 7 – Impact of relief on disclosures**
  – Relief period impacts disclosures in IPSAS 1 and 18
  – Until relief period expired → required not to comply

• **Members view on:**
  – Providing relief from IPSAS 1 and 18 disclosures
  – Proposed wording
Specific matter 8 – Impact of relief on reconciliations and comparative information

- Reconciliation
  - To explain transition from previous basis
  - Reconciliation at different points during transition
- Comparative information
  - Provide where practical following recognition

Members view on:
- Presenting reconciliation at different points during transition
- Presenting comparative information when practical
Issues Paper

• Specific matter 9 – Timing of impairment test
  – IPSAS 21 and IPSAS 26 applied prospectively
  – Relief period impacts impairment timing
  – Until relief period expired → required not to test

• Members view on:
  – Providing impairment test relief
  – Proposed wording
• Specific matter 10 – Internally generated intangible assets
  – IPSAS 31.70 → not recognition if previously expensed
  – Proposal to recognize on transition

• Members view on:
  – Proposal to recognize previously expensed intangible assets
  – Proposed wording
Issues Paper

• Specific matter 11 – Timing differences for group
  – IFRS 1.D16 and D17 relief
  – Timing difference between adoption

• Members view on inclusion of similar relief in ED
• Specific matter 12 – Severe hyperinflation
  – IFRS 1.D26 and D30 relief
  – Subject to severe hyperinflation before transition
  – Functional currency normalization date

• Members view on inclusion of similar relief in ED
Issues Paper

• Specific matter 13
  – Members view on other matters to be included in Implementation Guidance

• Specific matter 14
  – Presentation of updated ED (BFC) at September 2013 meeting
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Proposed Exposure Draft