Objective of Agenda Item

Consider and provide directions on key issues

Materials Presented

• Agenda Item 12.1 Issues Paper
• Agenda Item 12.2 Draft Ch. 3: Monetary Gold
• Agenda Item 12.3 Draft Ch. 3: Currency in Circulation
Monetary Gold (Paras 5 – 8)

- Update of definition of “physical” to “tangible” gold
- Historical cost approach discussion changed from “objectives” to an “intentions” based approach
  - Consistent with IPSAS 28-30

Matters for Consideration:
- Agree with amended definition of tangible gold (paragraph 3.18 of the CP).
- Agree with amendments to introduce the approach to historical cost based on intentions
Monetary Gold (Para 9)

- Intentions based approach
  - Concerns of TBG
  - Option vs. Alternative

Matter for Consideration:
- Confirm if intentions based approach to introduce options for accounting for monetary gold, or alternatively ask for views on a preferred option to narrow and develop further guidance.
An entity shall account for currency in circulation in a manner that helps users of its financial statements assess:

- The impact of currency in circulation on the entity’s financial performance and financial position;
- The nature and extent of risks arising from distributing currency in circulation, and how the entity manages those risks; and
- The types (different categories and series) of currency in circulation issued by the entity.

**Matter for Consideration:**

- Confirm if the chapter objective for currency in circulation is appropriate.
Defined Term | Definition
--- | ---
Currency in Circulation | Physical notes and coins with fixed and determinable values that are legal tender issued by the monetary authority that is, either that of an individual economy or, in a currency union that the economy belongs.

Matter for Consideration:

*Confirm if the definition of currency in circulation is appropriate or provide amendments.*
Currency: Purchase and Production (Para 14)

Purchase and Production

- Costs related to the purchase and production and notes and coins are appropriate to be recognized as inventory.

Matter for Consideration:

- Agree that IPSAS 12, Inventories is appropriate for accounting for the purchase and production of currency?
Notes – Recognition (Paras 15 – 19) (1/6)

• Liability recognized by monetary authorities
  – Obligation arises due to legal requirements to maintain notes supply

• Two types of transactions:
  – Increase money supply
  – Maintain money supply
Public Sector Specific Financial Instruments

Notes – Recognition (Paras 15 – 19) (2/6)

• Increase money supply
  – Notes issued and consideration received is a financial asset-other than notes

Example transaction
  – Production & distribution of 1000, $100 dollar notes. Materials purchased for production cost $100 dollars and additional manufacturing and production costs and allocated overhead cost $100. Notes were distributed with consideration received equal to the face value of the notes issued, with government bonds received in return (financial asset – other than cash).
### Public Sector Specific Financial Instruments

#### Notes – Recognition (Paras 15 – 19) – (3/6)

**Example – Money Supply Increase**

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<th>Cash</th>
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<th>Liability - Notes</th>
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Public Sector Specific Financial Instruments

Notes – Recognition (Paras 15 – 19) (4/6)

• Maintain money supply
  – Notes issued and consideration received is old notes

Example transaction
  – Production & distribution of 1000, $100 dollar notes. Materials purchased for production cost $100 dollars and additional manufacturing and production costs and allocated overhead costs are $100. Notes were distributed with consideration received being an equal value of old notes.
Public Sector Specific Financial Instruments

Notes – Recognition (Paras 15 – 19) (5/6)

Example – Money Supply Increase

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Example:

- Money Supply Increase
Matters for Consideration:

- Agree that notes in circulation result in the recognition of a liability;
- Indicate if the discussion of the different types of transactions is helpful;
- Any additional transactions not identified by staff; and
- Is Appendix A helpful for understanding, any further amendments examples recommended?
Public Sector Specific Financial Instruments

Notes – Measurement (Paras 20 – 22) (1/2)

• Current measurement practice is consistent – liability at face value
• Analysis of measurement bases available in the Conceptual Framework in paragraph 1.37 of the chapter
• Measurement bases discuss:
  – Historical cost
  – Market value
  – Cost of fulfillment
• Measurement at face value of notes issued
Matters for Consideration:

• Agree with analysis related to the various measurement basis;

• Indicate if a view exists as to which measurement basis is most appropriate;

• Confirm if it agrees with the approaches discussed for measurement of the liability for notes in circulation, or suggest amendments?
Two types of transactions – derecognition:

- Transactions which lead to a decrease in the money supply, notes takeout of circulation by exchanging a financial asset – other than notes

- Notes for which an obligation no longer exists
  - No longer legal tender
  - Lost/damaged and unlikely to be exchanged
Public Sector Specific Financial Instruments

Notes – Derecognition (Paras 23 – 26) (2/3)

• Transactions to reduce the money supply result in derecognition as currency is removed from circulation;

• Notes for which an obligation no longer exists – more complicated:
  – Old series; no longer legal tender, or notes which are damaged or not expected to return – derecognize if no obligation deemed to exist

Options for derecognition:
  – Recognition directly in net financial position – liability relates to prior periods may impair current period cost of service
  – Recognition in statement of financial performance, impact on current cost of service because it is a realized revenue
Matter for Consideration:

- Indicate if it agrees with the discussion on derecognition and the options presented?
Variation in accounting for coins in circulation

Reasons why a liability may not be recognized

- Overall value of coins – material
- Monetary authority – outflow of resources not probable
  - Less likely to be exchanged
  - Coins more robust than notes & face value
Public Sector Specific Financial Instruments

Notes – Recognition (Paras 27 – 30) (2/4)

• Increase money supply
  – Coins issued and consideration received is a financial asset-other than notes

Example transaction
  – Production & distribution of 1000, $.25 coins. Materials purchased for production cost $100 dollars and additional manufacturing and production costs and allocated overhead cost $100. Coins were distributed with consideration received equal to the face value of the notes issued, with government bonds received in return (financial asset – other than cash).
Example – Money Supply Increase

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Matters for Consideration:

• Agrees with the possible reasons why a liability may not be recognized for coins in circulation;

• Indicate if the reasons why monetary authorities may not recognize a liability are appropriate?
Coins – Measurement & Derecognition (Para 31)

- Staff view - liability for coins in circulation – consistency with notes.

**Matter for Consideration:**

- Agree with staff view that a liability treatment for coins should be consistent with notes?
Coins – Consistent with Current IPSAS (Para 32)

- Current IPSAS requirements for recognition and measurement considered for currency liabilities – contrasted with the Framework analysis (paras 1.56-1.61)

Matter for Consideration:
- Agree with the analysis in Paragraph 1.56-1.61 in the draft chapter?