

2007 Edition

# IPSAS Summary

International Public Sector Accounting Standards (IPSAS)  
A common financial language for the public sector

For more information  
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Download the IPSAS Summary as a pdf-file from: [www.deloitte.nl/ipsas](http://www.deloitte.nl/ipsas)



## IPSAS Summary

In this brochure, we summarize the provisions of all 24 International Public Sector Accounting Standards (IPSAS) in issue and 2 exposure drafts outstanding at 1 November 2007. This summary is intended as general information and is not a substitute for reading the entire standard.

<b>IPSAS</b>	<b>Standard</b>	<b>based on</b>
IPSAS 1	Presentation of Financial Statements	IAS 1
IPSAS 2	Cash Flow Statements	IAS 7
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IPSAS 24	Presentation of Budget Information in Financial Statements	N/A
ED 30	Impairment of Cash-Generating Assets (Exposure Draft)	IAS 36
ED 31	Employee Benefits (Exposure Draft)	IAS 19

All above standards are based on accrual accounting. The following standard and exposure draft are based on cash accounting. These are not summarized in this brochure.

Cash	Cash Basis IPSAS – Financial Reporting Under the Cash Basis of Accounting
ED 32	Disclosure Requirements for Recipients of External Assistance

## IPSAS 1 Presentation of Financial Statements

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To set out the manner in which general purpose financial statements should be prepared under the accrual basis of accounting, including guidance for their structure and the minimum requirements for content.

### Summary

- Fundamental principles underlying the preparation of financial statements, including going concern assumption, consistency of presentation and classification, accrual basis of accounting, aggregation and materiality.
- A complete set of financial statements comprises:
  - Statement of financial position
  - Statement of financial performance
  - Statement of changes in net assets/equity
  - Cash flow statement
  - When the entity makes its approved budget publicly available, a comparison of budget and accrual amounts
  - Notes, comprising a summary of significant accounting policies and other explanatory notes.
- An entity whose financial statements comply with IPSASs should disclose that fact. If financial statements do not comply with all the requirements of the applicable IPSASs, the entity must refrain from describing compliance of its financial statements with IPSASs.
- Assets and liabilities, and revenue and expenses, may not be offset unless offsetting is permitted or required by another IPSAS.
- Comparative prior-period information must be presented for all amounts shown in the financial statements and notes. Comparative information should be included when it is relevant to an understanding of the current period's financial statements. In the case presentation or classification is amended, comparative amounts should be reclassified, and the nature, amount of, and reason for any reclassification should be disclosed.
- The statement of changes in net assets/equity must show all changes in net assets/equity.
- Financial statements generally to be prepared annually. If the date of the year end changes, and financial statements are presented for a period other than one year, disclosure thereof is required.
- Current/non-current distinction for assets and liabilities is normally required. In general, subsequent events are not considered in classifying items as current or non-current. An entity must disclose for each assets and liability item that combines amounts expected to be recovered or settled both before and after 12 months from the reporting date, the amount to be recovered or settled after more than 12 months.
- IPSAS 1 specifies minimum line items to be presented on the face of the statement of financial position, statement of financial performance and statement of changes in net

assets/equity, and includes guidance for identifying additional line items, headings and sub-totals.

- Analysis of expenses in the statement of financial performance may be given by nature or by function. If presented by function, classification of expenses by nature must be provided additionally.
- IPSAS 1 specifies minimum disclosure requirements for the notes. These must include information about:
  - accounting policies followed;
  - the judgments that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements;
  - the key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year;
  - the domicile and legal form of the entity;
  - a description of the nature of the entity's operations;
  - a reference to the relevant legislation, and
  - and the name of the controlling entity and the ultimate controlling entity of the economic entity.
- An appendix to IPSAS 1 provides illustrative statements of financial position, statements of financial performance and statements of changes in net assets/equity.

## IPSAS 2 Cash Flow Statements

### Effective date

Periods beginning on or after July 1, 2001.

### Objective

To require the presentation of information about historical changes in a public sector entity's cash and cash equivalents by means of a cash flow statement that classifies cash flows during the period according to operating, investing and financing activities.

### Summary

- A cash flow statement must analyze changes in cash and cash equivalents during a period, classified by operating, investing and financing activities
- Cash equivalents include investments that are short term (less than three months from date of acquisition), readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value. Generally they exclude equity investments.
- Cash flows for operating activities are reported using either the direct (recommended) or the indirect method.

- Public sector entities reporting cash flows from operating activities using the direct method are encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities.
- The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate, and separately disclosed.
- Cash flows from interest and dividends received and paid should each be disclosed separately and classified as either operating, investing or financing activities.
- Cash flows arising from taxes on net surplus are classified as operating unless they can be specifically identified with financing or investing activities.
- The exchange rate used for translation of cash flows arising from transactions denominated in a foreign currency should be the rate in effect at the date of the cash flows.
- Aggregate cash flows relating to acquisitions and disposals of controlled entities and other operating units should be presented separately and classified as investing activities, with specified additional disclosures.
- Investing and financing transactions that do not require the use of cash should be excluded from the cash flow statement, but they should be separately disclosed.
- Illustrative cash flow statements are included in appendices to IPSAS 2.

## IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors.

### Summary

- In the absence of an IPSAS that specifically applies to a transaction, other event or condition, management must use judgement in developing and applying an accounting policy that results in information that is:
  - Relevant to the decision-making needs of users, and
  - Reliable, in that the financial statements:
    - Represent faithfully the financial position, financial performance and cash flows of the entity;
    - Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
    - Are neutral, i.e., free from bias;
    - Are prudent; and
    - Are complete in all material aspects.
- IPSAS3 prescribes a hierarchy for choosing accounting policies:
  - IPSASs, taking into account any relevant implementation guidance;
  - in the absence of a directly applicable IPSAS, look at the requirements and guidance in IPSASs dealing with similar and related issues; and the definitions,



- recognition and measurement criteria for assets, liabilities, revenue and expenses described in other IPSASs; and
  - management may also consider the most recent pronouncements of other standard-setting bodies, and accepted public and private sector practices.
- Apply accounting policies consistently to similar transactions.
- Make a change in accounting policy only if it is required by an IPSAS, or it results in reliable and more relevant information.
- If a change in accounting policy is required by an IPSAS, follow that pronouncement's transition requirements. If none are specified, or if the change is voluntary, apply the new accounting policy retrospectively by restating prior periods. If restatement is impracticable, include the cumulative effect of the change in net assets/equity. If the cumulative effect cannot be determined, apply the new policy prospectively.
- Changes in accounting estimates (for example, change in useful life of an asset) are accounted for in the current period, or the current and future periods (no restatement).
- In the situation a distinction between a change in accounting policy and a change in accounting estimate is unclear, the change is treated as a change in an accounting estimate.
- All material prior period errors should be corrected retrospectively in the first set of financial statements authorized for issue after their discovery, by restating comparative prior period amounts or, if the error occurred before the earliest period presented, by restating the opening statement of financial position.

## IPSAS 4 The Effects of Changes in Foreign Exchange Rates

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe the accounting treatment for an entity's foreign currency transactions and foreign operations.

### Summary

- First, determine the reporting entity's functional currency – the currency of the primary economic environment in which the entity operates.
- Next, translate all foreign currency items into the functional currency:
  - at date of transaction, record using the spot exchange rate for initial recognition and measurement;
  - at subsequent reporting dates:
    - use closing rate for monetary items;
    - use transaction-date exchange rates for non-monetary items carried at historical cost; and

- use valuation-date exchange rates for non-monetary items that are carried at fair value; and
  - exchange differences arising on settlement of monetary items and on translation of monetary items at a rate different from when initially recognized are included in surplus or deficit, with one exception: exchange differences arising from monetary items that form part of the reporting entity's net investment in a foreign operation are recognized in the consolidated financial statements that include the foreign operation in a separate component of net assets/equity; these differences will be recognized in the surplus or deficit on disposal of the net investment.
- The results and financial position of an entity's foreign operations whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:
  - assets and liabilities for each statement of financial position presented (including comparatives) are translated at the closing rate at the date of that statement of financial position;
  - revenue and expenses of each statement of financial performance (including comparatives) are translated at exchange rates at the dates of the transactions; and
  - all resulting exchange differences are recognized as a separate component of net assets/equity.
- Special rules apply for translating into a presentation currency the financial performance and financial position of an entity whose functional currency is hyperinflationary.

## IPSAS 5 Borrowing Costs

### Effective date

Periods beginning on or after July 1, 2001.

### Objective

To prescribe the accounting treatment for borrowing costs.

### Summary

- Borrowing costs include interest, amortization of discounts or premiums on borrowings, and amortization of ancillary costs incurred in the arrangement of borrowings.
- Two accounting treatments are allowed:
  - expense model: charge all borrowing costs to expenses in the period when they are incurred; and
  - capitalization model: capitalize borrowing costs which are directly attributable to the acquisition or construction of a qualifying asset, but only when it is probable that these costs will result in future economic benefits or service potential to the entity, and the costs can be measured reliably. All other borrowing costs that do not satisfy the conditions for capitalization are to be expensed when incurred.  
Where an entity adopts the capitalization model, that model should be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction or production of all qualifying assets of the entity. Investment income from temporary investment should be deducted from the actual borrowing costs.
- A qualifying asset is an asset which requires a substantial period of time to make it ready for its intended use or sale. Examples include office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and some inventories.



- If funds are borrowed generally and used for the purpose of obtaining the qualifying asset, apply a capitalization rate (weighted average of borrowing costs applicable to the general outstanding borrowings during the period) to outlays incurred during the period, to determine the amount of borrowing costs eligible for capitalization.

## IPSAS 6 Consolidated and Separate Financial Statements

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe requirements for preparing and presenting consolidated financial statements for an economic entity under the accrual basis of accounting. To prescribe how to account for investments in controlled entities, jointly controlled entities and associates in separate financial statements.

### Summary

- A controlled entity is an entity controlled by another entity, known as the controlling entity. Control is the power to govern the operating and financial policies. Consolidated financial statements are financial statements of an economic entity (controlling entity and controlled entities combined) presented as those of a single entity.
- Consolidated financial statements must include all controlled entities, except when there is evidence that:
  - control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal within twelve months from acquisition; and
  - management is actively seeking a buyer.

No exemption for controlled entity that operates under severe long-term funds transfer restrictions. A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other activities within the economic entity.

- Balances, transactions, revenue and expenses between entities within the economic entity are eliminated in full.
- All entities in the economic entity must use uniform accounting policies for like transactions.
- Reporting dates of controlled entities cannot be more than three months different from reporting date of the controlling entity.
- Minority interest is reported in net assets/equity in the consolidated statement of financial position, separately from the controlling entity's net assets/equity, and is not deducted in measuring the economic entity's revenue or expense. However, surplus or deficit of the economic entity is allocated between minority and majority interest on the face of the statement of financial performance.

- In the controlling entity's separate financial statements: account for all of its investments in controlling entities, associates and joint ventures either at cost or as financial instruments.

## IPSAS 7 Investments in Associates

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe the investor's accounting for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure.

### Summary

- Applies to all investments in which an investor has significant influence unless the investor is:
  - a venture capital organization, or
  - a mutual fund or unit trust or a similar entity, such as an investment-linked insurance fund that is measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change, in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.
- When there is evidence that the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer, the investment shall be classified as held for trading and accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.
- Otherwise, an investor must use the equity method for all investments in associates over which it has significant influence.
- Rebuttable presumption of significant influence if investment held, directly or indirectly, is 20% or more of the voting power of the associate.
- Under the equity method, the investment is initially recorded at cost. It is subsequently adjusted by the investor's share of the investee's post acquisition change in net assets/equity. Investor's statement of financial performance reflects its share of the investee's post-acquisition surplus or deficit.
- Associate's accounting policies must be the same as those of the investor.
- Reporting dates of associates cannot be more than three months different from the investor's reporting date.
- Even if consolidated accounts are not prepared, for example, because the investor has no controlled entities, equity accounting is required. However, the investor does not apply the equity method when presenting "separate financial statements" as defined in IPSAS 6. Instead, the investor accounts for the investment either at cost or as a financial instrument.
- Requirement for impairment testing in accordance with IAS 36. The impairment indicators of IAS 39 also apply.



- If application of the requirements in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments indicates that the investment may be impaired, an entity applies IPSAS 21.

## IPSAS 8 Interests in Joint Ventures

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe the accounting treatment required for interests in joint ventures, regardless of the structures or legal forms of the joint venture activities.

### Summary

- Applies to all investments in which investor has joint control unless the investor is:
  - a venture capital organization, or
  - a mutual fund or unit trust or a similar entity, such as an investment-linked insurance fund that is measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change, in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

The key characteristic of a JV is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. Joint ventures may be classified as jointly controlled operations, jointly controlled assets and jointly controlled entities. Different accounting treatments apply for each type of joint venture.

- Jointly controlled operations: venturer recognizes the assets it controls, and expenses and liabilities it incurs, and its share of revenue earned, in both its separate and consolidated financial statements.
- Jointly controlled assets: venturer recognizes in its financial statements its share of the jointly controlled assets, any liabilities that it has incurred, and its share of any liabilities incurred jointly with the other venturers, revenue earned from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture. These rules apply to both separate and consolidated financial statements.
- Jointly controlled entities: two accounting policies are permitted:
  - proportionate consolidation: under this method, the venturer's statement of financial position includes its share of the assets that it controls jointly and its share of the

- liabilities for which it is jointly responsible. Its statement of financial performance includes its share of the revenue and expenses of the jointly controlled entity; and
  - the equity method, as described in IPSAS 7.
- When there is evidence that the interest in a joint venture is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer, the interest shall be classified as held for trading and accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.
- Even if consolidated accounts are not prepared (for example, because the venturer has no controlled entities), proportionate consolidation/ equity accounting is required. However, in the venturer's "separate financial statements" as defined in IPSAS 6, interests in joint ventures should be accounted for either at cost or as a financial instrument.

## IPSAS 9 Revenue from Exchange Transactions

### Effective date

Periods beginning on or after July 1, 2002.

### Objective

To prescribe the accounting treatment for revenue arising from exchange transactions and events.

### Summary

- IPSAS 9 applies to revenue arising from the following exchange transactions and events:
  - The rendering of services;
  - The sale of goods, and
  - The use of others of entity assets yielding interest, royalties and dividends.
- Revenue should be measured at the fair value of the consideration received or receivable.
- Recognition:
  - from sale of goods: when significant risks and rewards have been transferred to purchaser, loss of effective control by seller, amount of revenue can be reliably measured, it is likely that the economic benefits or service potential associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.;
  - from rendering of services: reference to the stage of completion of the transaction at the reporting date, provided the outcome of the transaction can be estimated reliably. If the outcome of the transaction cannot be estimated reliably, revenue must be recognized only to the extent of the expenses recognized that are recoverable.
  - for interest, royalties, and dividends: Recognized when it is probable that economic benefits or service potential will flow to the entity, and the amount of the revenue can be measured reliably..
    - Interest – on a time proportion basis that takes into account the effective yield on the asset.
    - Royalties – as they are earned in accordance with the substance of the relevant agreement.
    - Dividends or their equivalents – when the shareholder's or the entity's right to receive payment is established.

## IPSAS 10 Financial Reporting in Hyperinflationary Economies

### Effective date

Periods beginning on or after July 1, 2002.

### Objective

To prescribe specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information (including the consolidated financial information) provided is meaningful.

### Summary

- The financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the reporting date.
- Comparative figures for prior period(s) and any information in respect of earlier periods, should be stated into the same measuring unit current at the reporting date.
- The surplus or deficit on the net monetary position should be separately disclosed in the statement of financial performance.
- When entities in the public sector include in their financial statements the related budgetary information, the budgetary information should also be restated into the same current measuring unit.
- Generally an economy is hyperinflationary when there is a 100% cumulative rate of inflation over 3 years.

## IPSAS 11 Construction Contracts

### Effective date

Periods beginning on or after July 1, 2002.

### Objective

To prescribe the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor.

### Summary

- Contract revenue should comprise the initial amount agreed in the contract together with variations in contract work, claims, and incentive payments to the extent that it is probable that they will result in revenues and can be measured reliably.
- Contract revenue is measured at the fair value of the consideration received or receivable
- Contract costs should comprise costs that relate directly to the specific contract, costs that are attributable to general contract activity and that can be allocated to the contract on a

systematic and rational basis, together with such other costs as are directly attributable to the customer under the terms of the contract.

- Where the outcome of a construction contract can be estimated reliably, revenue and costs should be recognized by reference to the stage of completion of contract activity at the reporting date (the percentage of completion method of accounting).
- If the outcome cannot be estimated reliably, no surplus should be recognized. Instead, contract revenue should be recognized only to the extent that contract costs incurred are expected to be recovered, and contract costs should be expensed as incurred.
- In respect of construction contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract: if it is probable that total contract costs will exceed total contract revenue, the expected deficit should be recognized immediately.

## IPSAS 12 Inventories

### Effective date

Annual periods beginning on or after July 1, 2002. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe the accounting treatment of inventories under the historical cost system, including cost determination and expense recognition, including any write-down to net-realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

### Summary

- Inventories are required to be measured at the lower of cost and net realizable value. Where inventories are acquired through a non-exchange transaction, their cost shall be measured as their value as at the date of acquisition. However, inventories are required to be measured at the lower of cost and current replacement cost where they are held for:
  - Distribution at no charge or for a nominal charge; or
  - Consumption in the production process of goods to be distributed at no charge or for a nominal charge.
- Costs include all purchase cost, conversion cost (materials, labor and overhead), and other costs to bring inventory to its present location and condition, but not foreign exchange differences and selling costs. Trade discounts, rebates and other similar items must be deducted in determining the costs of purchase.
- For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory.
- An entity must apply the same cost formula for all inventories having similar nature and use to the entity; a difference in geographical location of inventories by itself is not sufficient to justify the use of different cost formulas.
- For interchangeable items, cost is determined on either a FIFO or weighted average basis. LIFO is not permitted. For inventories with a different nature or use, different cost formulas may be justified.
- When inventories are sold, exchanged or distributed, the carrying amount shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related

revenue, the expense is recognized when the goods are distributed or related services have been rendered.

- Write-downs to net realizable value are recognized as an expense in the period the loss or the write-down occurs. Reversals arising from an increase in net realizable value are recognized as a reduction of the inventory expense in the period in which they occur.

## IPSAS 13 Leases

### Effective date

Annual periods beginning on or after January 1, 2003. The revised version described below is effective from January 1, 2008. Early application encouraged.

### Objective

To prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

### Summary

- A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership of an asset. The title may or may not be eventually transferred.  
Examples:
  - lease covers substantially all of the asset's life; and/or
  - present value of lease payments is substantially equal to the asset's fair value.
- All other leases are classified as operating lease. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification.
- Finance leases – Lessee's Accounting:
  - recognize asset and liability at the lower of the present value of minimum lease payments and the fair value of the asset, determined at the inception of the lease. The discount rate applicable for calculating the present value should be the interest rate implicit in the lease or the incremental borrowing rate;
  - depreciation policy – as for owned assets; and
  - finance lease payment – apportioned between interest and reduction in outstanding liability.
- Finance leases – Lessor's Accounting:
  - recognize as a receivable in the statement of financial position at an amount equal to the net investment in the lease; and
  - recognize finance revenue based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.
- Operating leases – Lessee's Accounting:
  - recognize lease payments as an expense in the statement of financial performance on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the user's benefit.
- Operating leases – Lessor's Accounting:



- assets held for operating leases should be presented in the lessor's statement of financial position according to the nature of the asset; and
- lease revenue should be recognized on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the benefits.
- Lessors of operating leases shall add initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognize them as an expense over the lease term on the same basis as the lease revenue.
- Accounting treatment of sale and leaseback transactions depends on whether these are essentially finance or operating leases.

## IPSAS 14 Events After the Reporting Date

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe:

- When an entity should adjust its financial statements for events after the reporting date.
- Disclosures about the date when the financial statements were authorized for issue, and about events after the reporting date.

### Summary

- Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue.
- Adjusting events after the reporting date, those that provide evidence of conditions that existed at the reporting date – adjust the financial statements to reflect those events that provide evidence of conditions that existed at the reporting date (e.g., settlement of a court case after the reporting date, that confirms that the entity had an obligation at the reporting date).
- Non-adjusting events after the reporting date, those that are indicative of conditions that arose after the reporting date – do not adjust the financial statements to reflect events that arose after the reporting date (e.g., a decline in the fair value of property after year end, which does not change the valuation of the property at the reporting date).
- Dividends declared after the reporting date shall not be recognized as a liability at the reporting date. Disclosure is required.
- An entity shall not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate (e.g., if there is an intention to liquidate the entity or cease operations after the reporting date, or that there is no realistic alternative but to do so).
- An entity must disclose the date its financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.
- If an entity obtains information after the reporting date, but before the financial statements are authorized for issue, about conditions that existed at the reporting date, the entity must update disclosures that relate to these conditions in light of the new information.



- An entity must disclose the next for each material category of non-adjusting event after the reporting date:
  - The nature of the event, and
  - An estimate of its financial effect, or a statement that such an estimate cannot be made.

## IPSAS 15 Financial Instruments: Disclosure and Presentation

### Effective date

Annual periods beginning on or after January 1, 2003.

### Objective

To enhance users' understanding of the significance of on-balance sheet and off-balance sheet financial instruments to an entity's financial position, performance, and cash flows.

### Summary

- Issuer's classification of a financial instrument either as a liability or as net assets/equity:
  - based on substance of the contractual arrangement on initial recognition and the definitions of a financial liability and an equity instrument, not form of the instrument;
  - classification is made at the time of issuance and is not subsequently altered;
  - an instrument is a financial liability if the issuer may be obligated to deliver cash or another financial asset or the holder has a right to demand cash or another financial asset. An example is mandatorily redeemable preferred shares;
  - an instrument that does not give rise to such a contractual obligation is an equity instrument; and
  - interest, dividends, gains and losses relating to a financial instrument classified as a financial liability should be reported in the statement of financial performance as revenue or expense as appropriate.
- At issuance, an issuer must classify separately the debt and net assets/equity components of a single compound instrument such as convertible debt and debt issued with detachable rights or warrants.
- A financial asset and a financial liability should be offset and the net amount reported in the statement of financial position when an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis or simultaneously realize asset and liability.
- Costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity, net of any related income tax benefit.
- Disclosure requirements include:
  - Financial risk management objectives and hedging policies;
  - hedge accounting policies and practices, and gains and losses from hedges;

- terms and conditions of, and accounting policies for, all financial instruments;
- information about exposure to interest rate risk;
- information about exposure to credit risk;
- fair values for each class of financial assets and financial liabilities, except when it is not practicable within constraints of timeliness or cost to determine the fair value of a financial asset or financial liability with sufficient reliability
- financial assets carried at an amount in excess of fair value; and
- hedges of anticipated future transactions.

## IPSAS 16 Investment Property

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe the accounting treatment for investment property and related disclosures.

### Summary

- Investment property is land or buildings held (whether by the owner or under a finance lease) to earn rentals or for capital appreciation or both, rather than for:
  - Use in the production or supply of goods or services or for administrative purposes;
  - Sale in the ordinary course of operations.
- Investment property shall be recognized as an asset when, and only when:
  - It is likely that the future economic benefits or service potential that are associated with the investment property will flow to the entity;
  - The cost or fair value of the investment property can be measured reliably.
- IPSAS 16 does not apply to owner-occupied property or property that is being constructed or developed for future use as investment property, or property held for sale in the ordinary course of business.
- Investment property must be measured initially at its cost. Where an investment is acquired at no cost, or for a nominal charge, its cost is measured at its fair value as at the date of acquisition.
- After recognition an entity may choose either the fair value model or cost model:
  - fair value model: investment property is measured at fair value, and changes in fair value are recognized in surplus or deficit for the period in which it arises; or
  - cost model: investment property is measured at depreciated cost less any accumulated impairment losses. Fair value of the investment property must still be disclosed.
- The chosen measurement model must be applied to all of the entity's investment property.
- If an entity uses the fair value model but, when a particular property is acquired, there is clear evidence that the entity will not be able to determine fair value on a continuing basis, the cost model is used for that property – and it must continue to be used until disposal of the property. In that case the residual value of the investment property is assumed to be zero.
- Change from one model to the other is permitted if it will result in a more appropriate presentation (highly unlikely for change from fair value to cost model).

- A property interest held by a lessee under an operating lease can qualify as investment property provided that the lessee uses the fair value model of IPSAS 16. In this case, the lessee accounts for the lease as if it were a finance lease.

## IPSAS 17 Property, Plant and Equipment

### Effective date

Annual periods beginning on or after July 1, 2001. The revised version described below is effective from January 1, 2008.

### Objective

To prescribe the principles for the initial recognition and subsequent accounting (determination carrying amount and the depreciation charges and impairment losses) for property, plant and equipment.

### Summary

- Items of property, plant and equipment shall be recognized as assets when it is probable that the future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably.
- IPSAS 17 does not require or prohibit the recognition of heritage assets. An entity which recognizes heritage assets is required to comply with the disclosure requirements of IPSAS 17 with respect to those heritage assets that have been recognized and may, but is not required to, comply with other requirements of IPSAS 17 in respect of those heritage assets.
- Specialist military equipment will normally meet the definition of property, plant and equipment and should be recognized as an asset. Infrastructure assets, such as road networks, sewer systems, and communication networks, should be accounted for in accordance with this IPSAS.
- Initial recognition at cost, which includes all costs necessary to get the asset ready for its intended use. Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition. If payment is deferred, interest must be recognized.
- Subsequent to acquisition, IPSAS 17 allows a choice of accounting model for an entire class of property, plant and equipment:
  - cost model: the asset is carried at cost less accumulated depreciation and impairment losses; or
  - revaluation model: the asset is carried at revalued amount, which is fair value at revaluation date less subsequent depreciation and impairment losses.
- Under the revaluation model, revaluations must be carried out regularly. All items of a given class must be revalued. Revaluation increases are credited directly to revaluation surplus. However, the increase shall be recognized as revenue in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized as an

expense in surplus or deficit. Revaluation decreases are debited first against the revaluation surplus related to the same class of assets, and any excess against surplus or deficit. When the revalued asset is disposed of, the revaluation surplus is transferred directly to accumulated surpluses or deficits and is not recycled through surplus or deficit.

- 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.
- Components of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- Depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity. The residual value must be reviewed at least annually and shall equal the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. If operation of an item of property, plant and equipment (for example, an aircraft) requires regular major inspections, when each major inspection is performed, its cost is recognized in the carrying amount of the asset as a replacement, if the recognition criteria are satisfied. If expectations differ from previous estimates, the change must be accounted for as a change in an accounting estimate in accordance with IPSAS 3.
- Land and buildings are separable assets and are accounted for separately, even when they are acquired together. Land normally has an unlimited useful life, and therefore is not depreciated.
- Impairment of property, plant and equipment must be assessed under IPSAS 21.
- All exchanges of property, plant and equipment shall be measured at fair value, including exchanges of similar items, 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 carrying amount of an item of property, plant and equipment must be derecognized:
  - On disposal, or
  - When no future economic benefits or service potential is expected from its use or disposal.
- The gain or loss arising from the derecognition of an item of property, plant and equipment must be included in surplus or deficit when the item is derecognized. Gains may not be classified as revenue; the gain or loss arising from the derecognition of an item of property, plant and equipment must be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## IPSAS 18 Segment Reporting

### Effective date

Periods beginning on or after July 1, 2003.

### Objective

To establish principles for reporting financial information by segments to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity, and enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

## Summary

- An entity which prepares and presents financial statements under the accrual basis of accounting should apply IPSAS 18 in the presentation of segment information.
- If both consolidated financial statements of a government or other economic entity and the separate financial statements of the controlling entity are presented together, segment information need be presented only on the basis of the consolidated financial statements.
- Requires entities to report on segments on a basis appropriate for assessing the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.
- An entity normally looks in to its organizational structure and internal reporting system for the purpose of identifying its service segments and geographical segments.
- Guidance is provided on which segments are reportable, but IPSAS 18 does not specify quantitative thresholds that must be applied in identifying reportable segments.
- A primary and secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments.
- Segment information should be based on the same accounting policies as the consolidated group or entity.
- Assets that are jointly used by two or more segments must be allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments.
- If a segment is identified as a segment for the first time, prior period segment data that is presented for comparative purposes should be restated to reflect the newly reported segment as a separate segment.

## IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

### Effective date

Periods beginning on or after January 1, 2004.

### Objective

To prescribe appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. IPSAS 19 thus aims to ensure that only genuine obligations are dealt with in the financial statements. Planned future expenditure, even where authorized by management, is excluded from recognition, as are accruals for self-insured losses, general uncertainties, and other events that have not yet taken place.

### Summary

- Recognize a provision only when:
  - a past event has created a present legal or constructive obligation,
  - an outflow of resources embodying economic benefits or service potential required to settle the obligation is probable,

- and the amount of the obligation can be estimated reliably.
- Amount recognized as a provision is the best estimate of settlement amount of the expenditure required to settle the obligation at reporting date.
- Requires a review of provisions at each reporting date to adjust for changes to reflect the current best estimate.
- If it is no longer probable that an outflow of resources embodying economic benefits or service potential is required to settle the obligation, the provision should be reversed.
- Utilize provisions only for the purposes for which they were originally intended.
- Examples of provisions may include onerous contracts, restructuring provisions, warranties, refunds and site restoration.
- A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:
  - Necessarily entailed by the restructuring, and
  - Not associated with the ongoing activities of the entity.
- Contingent liability arises when:
  - there is a possible obligation to be confirmed by a future event that is outside the control of the entity; or
  - a present obligation may, but probably will not, require an outflow of resources embodying economic benefits or service potential; or
  - a sufficiently reliable estimate of the amount of a present obligation cannot be made (this is rare).
- Contingent liabilities require disclosure only (no recognition). If the possibility of outflow is remote, then no disclosure.
- Contingent asset arises when the inflow of economic benefits or service potential is probable, but not virtually certain, and occurrence depends on an event outside the control of the entity.
- Contingent assets require disclosure only (no recognition). If the realisation of revenue is virtually certain, the related asset is not a contingent asset and recognition of the asset and related revenue is appropriate.
- If an entity has an onerous contract, the present obligation (net of recoveries) under the contract should be recognized and measured as a provision.

## IPSAS 20 Related Party Disclosures

### Effective date

Annual periods beginning on or after January 1, 2004.

### Objective

To ensure that financial statements disclose the existence of related party relationships and transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

### Summary

- Related parties are parties that control or have significant influence over the reporting entity (including controlling entities, owners and their families, major investors, and key management personnel) and parties that are controlled or significantly influenced by the reporting entity (including controlled entities, joint ventures, associates, and postemployment



benefit plans). If the reporting entity and another entity are subject to common control, these entities are also considered related parties.

- Requires disclosure of:
  - relationships involving control, even when there have been no transactions in between;
  - related party transactions; and
  - management compensation (including an analysis by type of compensation).
- For related party transactions, disclosure is required of the nature of the relationship, the types of transactions that have occurred and the elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.
- Examples of related party transactions that may lead to disclosures by a reporting entity:
  - purchases or transfers/sales of goods (finished or unfinished);
  - purchases or transfers/sales of property and other assets;
  - rendering or receiving of services;
  - agency arrangements;
  - leases;
  - transfers of research and development;
  - transfers under licence agreements;
  - transfers under finance arrangements (including loans and equity contributions); and
  - provision of guarantees or collateral

## IPSAS 21 Impairment of Non-Cash-Generating Assets

### Effective date

Annual periods beginning on or after January 1, 2006.

### Objective

To ensure that non-cash-generating assets are carried at no more than their recoverable service amount, and to prescribe how recoverable service amount is calculated.

### Summary

- IPSAS 21 applies to all non-cash-generating assets except assets arising from construction contracts (see IPSAS 11), inventories (see IPSAS 12), financial assets that are included in the scope of IPSAS 15, investment property measured at fair value (see IPSAS 16), non-cash-generating property, plant and equipment that is measured at revalued amounts (see IPSAS 17), and other assets in respect of which accounting requirements for impairment are included in another IPSAS.
- Public sector entities that hold cash-generating assets shall apply International Accounting Standard IAS 36 “Impairment of Assets” to such assets.

- Impairment loss of a non-cash-generating asset is to be recognized when the carrying amount of an asset exceeds its recoverable service amount.
- Recognize impairment loss immediately in net surplus/deficit.
- After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Value in use of a non-cash-generating is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following three approaches, and depends on the availability of data and the nature of the impairment:
  - depreciated replacement cost approach: the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. 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 condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
  - restoration cost approach: the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset whichever is lower.
  - service units approach: the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower
- At each reporting date, review assets to assess for any indication that an asset may be impaired. If impairment is indicated, the entity should estimate recoverable service amount.
- Reversal of prior years' impairment losses allowed in certain instances.

## IPSAS 22 Disclosure of Financial Information About the General Government Sector

### Effective date

Annual periods beginning on or after January 1, 2008.

### Objective

To prescribe disclosure requirements for governments which elect to present information about the general government sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can provide a better understanding of





the relationship between the market and non-market activities of the government and between financial statements and statistical bases of financial reporting.

### Summary

- Financial information about the general government sector shall be disclosed in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the government, with two exceptions:
  - the general government sector shall not apply the requirements of IPSAS 6, “Consolidated and Separate Financial Statements” in respect of entities in the public financial corporations and public non-financial corporations sectors.
  - the general government sector shall recognize its investment in the public financial corporations and public non-financial corporations sectors as an asset and shall account for that asset at the carrying amount of the net assets of its investees.
- Disclosures made in respect of the general government sector shall include at least of the following:
  - Assets by major class, showing separately the investment in other sectors;
  - Liabilities by major class;
  - Net assets/equity;
  - Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;
  - Revenue by major class;
  - Expenses by major class;
  - Surplus or deficit;
  - Cash flows from operating activities by major class;
  - Cash flows from investing activities; and
  - Cash flows from financing activities.
- The manner of presentation of the general government sector disclosures shall be no more prominent than the government’s financial statements prepared in accordance with IPSAS.
- Disclosures of the significant controlled entities that are included in the general government sector and any changes in those entities from the prior period must be made, together with an explanation of the reasons why any such entity that was previously included in the general government sector is no longer included.
- The general government sector disclosures shall be reconciled to the consolidated financial statements of the government showing separately the amount of the adjustment to each equivalent item in those financial statements.

## Effective date

Annual periods beginning on or after June 30, 2008. There are several transitional provisions.

## Objective

To prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination.

## Summary

- Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.
- Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.
- Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.
- Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.
- An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when the following recognition criteria are met:
  - It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
  - The fair value of the asset can be measured reliably.
- An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.
- An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.
- As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.
- Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity.
- A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when, and only when the following recognition criteria are met:
  - It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
  - A reliable estimate can be made of the amount of the obligation.

- Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognized when the recognition criteria of a liability are met.
- The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.
- An entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.
- Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system (e.g. amounts that are available to beneficiaries regardless of whether or not they pay taxes).
- Taxation revenue shall not be grossed up for the amount of tax expenditures (e.g. preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others).
- An entity recognizes an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. However, an entity may, but is not required to, recognize services in-kind as revenue and as an asset.
- An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:
  - The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately taxes and transfers.
  - The amount of receivables recognized in respect of non-exchange revenue.
  - The amount of liabilities recognized in respect of transferred assets subject to conditions.
  - The amount of assets recognized that are subject to restrictions and the nature of those restrictions.
  - The existence and amounts of any advance receipts in respect of non-exchange transactions.
  - The amount of any liabilities forgiven.
- An entity shall disclose in the notes to the general purpose financial statements:
  - The accounting policies adopted for the recognition of revenue from non-exchange transactions.
  - For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured.
  - For major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax.
  - The nature and type of major classes of bequests, gifts, donations showing separately major classes of goods in-kind received.

## IPSAS 24 Presentation of Budget Information in Financial Statements

### Effective date

Annual periods beginning on or after January 1, 2009.

### Objective

To ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget for which they are held publicly accountable and, where the budget and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

### Summary

- IPSAS 24 applies to public sector entities, other than Government Business Enterprises, that are required or elect to make publicly available their approved budget.
- Original budget is the initial approved budget for the budget period.
- Approved budget means the expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.
- Final budget is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative, or similar authority, changes applicable to the budget period.
- An entity shall present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis.
- An entity shall present a comparison of the budget amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:
  - The original and final budget amounts;
  - The actual amounts on a comparable basis; and
  - By way of note disclosure, an explanation of material differences between the budget and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements and a cross reference to those documents is made in the notes.
- An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors:
  - By way of note disclosure in the financial statements; or
  - In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.
- All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.
- An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget, the period of the approved budget, and the entities included in the approved budget.



- An entity shall identify in notes to the financial statements the entities included in the approved budget.
- The actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the following actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences:
  - If the accrual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities; or
  - If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities and financing activities.

The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

## IPSAS Exposure Draft 30 Impairment of Cash-Generating Assets

### Effective date

Periods beginning on or after Month xx 201x (12 months from the date of issue). Earlier application will be encouraged.

### Objective

To prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognized.

### Summary

- ED 30 applies to the accounting for the impairment of all cash-generating assets except inventories (see IPSAS 12), assets arising from construction contracts (see IPSAS 11), financial assets that are within the scope of IPSAS 15, investment property measured at fair value (see IPSAS 16), cash-generating property, plant and equipment that is measured at revalued amounts (see IPSAS 17), deferred tax assets, assets arising from employee benefits, biological assets related to agricultural activity measured at fair value less estimated point-of-sale costs, deferred acquisition costs and intangible assets, arising from an insurer's contractual rights under insurance contracts, non-current assets classified as held for sale and discontinued operations, and other cash-generating assets in respect of which accounting requirements for impairment are included in another IPSAS.
- An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.
- The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.
- An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.
- An entity shall test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year.
- If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.
- Recognize impairment loss through statement of financial performance for cash-generating assets carried at cost; treat as a revaluation decrease for cash-generating assets carried at revalued amount.
- An impairment loss shall be recognized immediately in surplus or deficit. When the amount estimated for an impairment loss exceeds the carrying amount of the asset to which it relates an entity shall recognize a liability if, and only if, that is required by another IPSAS.

- After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- Value in use of a cash-generating asset is the present value of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.
- Discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate should not reflect risks for which future cash flows have been adjusted and should equal the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from the asset.
- If it is not possible to determine the recoverable amount for the individual cash-generating asset, then determine recoverable amount for the asset's cash-generating unit.
- If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by an asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future prices that could be achieved in arm's length transactions in estimating:
  - The future cash inflows used to determine the asset's or cash-generating unit's value in use; and
  - The future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.
- In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:
  - Its fair value less costs to sell (if determinable);
  - Its fair value in use (if determinable); and
  - Zero.
- Where a non-cash-generating asset contributes to a cash generating unit a proportion of the carrying amount of that non-cash generating asset shall be allocated to the carrying amount of the cash generating unit prior to estimation of the recoverable amount of the cash-generating unit. The carrying amount of the non-cash-generating asset shall reflect any impairment losses at the reporting date which have been determined under the requirements of IPSAS 21.
- An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.
- The redesignation of an asset from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the



indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the listed indications applicable to the asset after redesignation.

- An entity shall disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets. Other disclosure requirements are applicable.

## IPSAS Exposure Draft 31 Employee Benefits

### Effective date

Periods beginning on or after January 1, 201x (five years after issuance). Earlier application will be encouraged.

### Objective

To prescribe the accounting and disclosure for employee benefits, including short-term benefits (wages, annual leave, sick leave, performance related bonuses, annual profit-sharing, and non-monetary benefits); pensions; post-employment life insurance and medical benefits; and other longterm employee benefits (long-service leave, disability, deferred compensation, and performance related bonuses and longterm profit-sharing), except for share based transactions and employee retirement benefit plans..

### Summary

- The standard requires and entity to recognize:
  - A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
  - An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.
- Underlying principle: the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable.
- Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
- Defined benefit plans are post-employment benefit plans other than defined contribution plans.
- Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
- Short-term employee benefits (payable within 12 months) should be recognized as an expense in the period in which the employee renders the service.
- An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.
- Bonus payments and profit-sharing payments are to be recognized only when the entity has a legal or constructive obligation to pay them and the obligation can be reliably estimated.
- Post-employment benefit plans (such as pensions and post-employment medical care) are categorized as either defined contribution plans or defined benefit plans.
- Under defined contribution plans, expenses are recognized in the period the contribution is payable. Accrued expenses, after deducting any contribution already paid, are recognized as a liability



- Under defined benefit plans, a liability is recognized in the statement of financial position equal to the net of:
  - the present value of the defined benefit obligation (the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods);
  - deferred actuarial gains and losses and deferred past service cost; and
  - the fair value of any plan assets at the reporting date.
- Actuarial gains and losses may be (a) recognized immediately in surplus or deficit, (b) deferred up to a maximum, with any excess amortized in surplus or deficit (the “corridor approach”), or (c) recognized immediately directly in net assets/equity (in the statement of recognized revenue and expense).
- An entity shall recognize gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation using current actuarial assumptions.
- Plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies.
- For group plans, the net cost is recognized in the separate financial statements of the entity that is legally the sponsoring employer unless a contractual agreement or stated policy for allocating the cost exists.
- Long-term employee benefits should be recognized and measured the same way as post-employment benefits under a defined benefit plan. However, unlike defined benefit plans, actuarial gains or losses and past service costs must always be recognized immediately in earnings.
- Termination benefits should be recognized as a liability and an expense when the entity is demonstrably committed to terminate one or more employees before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.
- An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:
  - Pay the employee benefits directly when they fall due; or
  - Pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.
- On first adopting this IPSAS, an entity shall determine its initial liability for defined benefit plans at the date as:
  - The present value of the obligations at the date of adoption.
  - Minus the fair value, at the date of adoption, of plan assets out of which the obligations are to be settled directly.
  - Minus any past service cost that shall be recognized in later periods.

The entity shall not split the cumulative actuarial gains and losses. All cumulative actuarial gains and losses shall be recognized in opening accumulated surpluses or deficits. Some exemptions are applicable regarding the disclosures when applying this IPSAS for the first time.

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