PSAB
Public Sector
Accounting Board

Introduction to International Public Sector Accounting Standards (IPSAS) Workshop Transcript Session 2: Assets

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Camila Santos: Before we get into the standards themselves, lets look at the asset definition.

An asset is a resource presently controlled by the entity as a result of a past event.

The definition of an asset can be dissected into its key characteristics.

- They embody resources. – A resource is an item with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource.
- They are presently controlled by the entity
- They arise from a past event

Antonella Risi: Can you tell us a bit more with respect to what you mean when you say that "an asset embodies resources"?

Camila Santos: Resources may be:

Financial resources including cash, claims to cash, investments and any other resources that can be used to settle liabilities as they come due or to finance the provision of future goods and services.
Physical resources with the ability to generate future net cash flows or that will be consumed in the provision of future service in the normal course of operations includes land, buildings, equipment, books, etc.
Non-physical resources or intangible resources representing recognizable rights to future economic benefits and service potential. Examples of intangible assets that may be recognized by public sector entities include licenses, computer software, etc.

Is it clearer now?

Antonella Risi: Yes! This clarification was very helpful. Thank you. What about control? What does "being presently controlled by the entity" entail?

Camila Santos: Control of an asset has two aspects:

a) The entity can use or otherwise benefit from the resource in pursuit of its objectives (right to obtain the benefits from the asset); and
b) The entity is able to exclude or otherwise regulate the access of others to benefits arising from the resource (prevent others from obtaining the benefits.)

Antonella Risi: Great! Thank you. Can you take us through the last key characteristic being that an asset arises from a past event?

Camila Santos: The occurrence of a past transaction or other event is considered to be evidence supporting the existence of a present resource. Transactions or events expected to occur in the future do not in themselves give rise to assets. This will often be the purchase, a contract or legislation.

Service potential is the ability of an item to contribute to the organization's objectives; it does not need to generate revenue. In some jurisdictions, hospitals will be resources because they can be used to generate revenue as patients are charged. In other jurisdictions, there are no charges and hence no revenue, but the hospital is still a resource because it enables the health ministry or similar organization to meet their objectives.

Once it is determined that a resource meets the definition and has the key characteristics of an asset, a determination must be made of whether the recognition criteria are met.

The recognition criteria are on the slide.

The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the asset will flow to the entity. The concept is in keeping with the uncertainty that characterizes the environment in which an entity operates.

"Probable" means that an inflow of resources is more likely than not to occur. That is, the probability that the event will occur is greater than the probability that it will not.

With respect to the 2nd criteria, an item may not be recognized in the financial statements because a reasonable estimate cannot be made of the amount involved.

However, just because an estimate is involved, does not mean the measurement is unreliable.

Here we have a decision tree to summarize all we have discussed so far.

Consider the item in the context of the definition of an asset. If it does not meet the definition, then nothing further is required.

If the item meets the definition of an asset then you will need to determine the appropriate IPSAS to use in recognizing the asset in the financial statements.

Antonella Risi: I see on the slide that when making an assessment of whether or not an item meets the definition of an asset the entity should consider if it's a monetary or non- monetary asset. Can you talk a bit more about this?

Camila Santos: Yes! Monetary assets versus non-monetary assets – Monetary assets are units of currency and other assets to be received in fixed or determinable units of currency (cash, accounts and loans receivable, temporary investments).

All other assets are non-monetary.

Monetary assets are accounted for using IPSASs 28-30 on Financial Instruments and IPSAS 41.

So now let's start looking at individual IPSAS. And we are starting with IPSAS 17, Property Plant and Equipment.

Here on the slide we have the definition of PP&E, that is tangible items that:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- Are expected to be used during more than one reporting period.
- Weapons systems and infrastructure assets meet the definition

Antonella Risi: Camila, before you go to the next slide, can you tell us a bit more about weapon systems and infrastructure assets

Camila Santos: Sure.

Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence.

With respect to infrastructure assets, while there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

- They are part of a system or network;
- They are specialized in nature and do not have alternative uses;
- They are immovable; and
- They may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems, and communication networks.

IPSAS 17 has a few scope limitations.

IPSAS 17 does not apply to:

- Biological assets related to agricultural activity (with the exception of bearer plants, which are in the scope of IPSAS 17)
- Mineral reserves such as oil, natural gas and similar non-regenerative resources

Antonella Risi: What is a biological asset?

Camila Santos: A biological asset is a living animal or plant. Generally biological assets are related to agricultural activity. These are dealt with in IPSAS 27, Agriculture that will be covered later in this workshop. However, a biological asset could also exist outside agricultural activities. For example, a police department may use police dogs in a canine unit.

IPSAS 17 does apply to PP&E used to develop and maintain biological assets and mineral reserves.

The general asset recognition principles apply equally for property, plant and equipment as any other asset.

IPSAS 17 requires an entity to apply the general asset recognition principle to all property, plant and equipment costs at the time they are incurred, including initial costs and subsequent expenditures.

From an initial measurement perspective, an item of property, plant, and equipment that qualifies for recognition as an asset shall be measured at its cost. The cost of an item of property, plant, and equipment is the cash price equivalent and comprises:

- Its purchase price (including import duties/taxes net of trade discounts and rebates)
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The estimate of obligations associated with retirement, disposal or abandonment

The requirements for measuring an item of property plant and equipment in non-monetary transactions are complex and beyond the scope of this workshop.

An entity shall choose either the cost model or the revaluation model in as its accounting policy and shall apply that policy to an entire class of property, plant, and equipment.

Under the cost model, the original cost is carried forward and the carrying amount is original cost less accumulated depreciation and impairment losses.

Under the revaluation model, the item is revalued at fair value and the carrying amount is the revalued amount less subsequent accumulated depreciation (depreciation is based on the fair value at the date of revaluation) and subsequent impairment losses.

After initial recognition of an asset, the revaluation model is only appropriate if the fair value of an item of property, plant, and equipment can be measured reliably.

An entity does not have to apply the models consistently across all classes of property, plant and equipment.

Let’s look at the next slide to see how both models differ from each other on the initial and subsequent measurement.

As you can see on the table, under both models an item of property, plant, and equipment that qualifies for recognition as an asset is initially measured at its cost in accordance with IPSAS 17. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

For subsequent measurement:

Under the cost model, an item of property, plant, and equipment is measured atoriginal cost less accumulated depreciation and impairment losses since recognition.

Under the Revaluation Model, an item of property, plant, and equipment is measured at fair value at date of revaluation less accumulated depreciation based on revaluated amount and impairment losses subsequent to revaluation date.

Antonella Risi: Thank you for clarifying the distinction between the two models. I was wondering which one is most used by entities?

Camila Santos: Great question! Public sector entities and commercial enterprises predominantly use the cost model because of its reliability, understandability, simplicity and cost effectiveness from an accounting perspective.

All PP&E except land is subject to depreciation

The depreciable amount of an asset is expensed on a systematic basis over its useful life to surplus or deficit for each period unless it is recognized in the carrying amount of another asset.The residual value and the useful life of an asset should be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

Depreciation of an asset begins when it is available for use. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated.

The carrying amount of PP&E is derecognized:

- On disposal
- When no future service potential or economic benefits is expected from its use or disposal

The gain or loss arising from the derecognition of an item of property, plant, and equipment should be included in surplus or deficit when the item is derecognized.
Under the recognition principle for property, plant and equipment, an entity recognizes the cost of replacing part of an item of property, plant, and equipment in the carrying amount when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions.

Let’s now turn our attention to the PP&E disclosure requirements.

- The primary disclosures required for each class of PP&E reported in financial statements include for each class:
  - The measurement bases
  - The depreciation methods

    - The useful lives or the depreciation rates used
    - Gross carrying amount and accumulated depreciations at beginning and end
    - Reconciliation of opening and closing balances
- Specific disclosures for the revaluation model
- Other disclosures e.g., restrictions on title, contractual commitments etc.

IPSAS 17 includes an illustrative example of disclosures.

An entity may incur debt and related borrowing cost associated with the acquisition, construction or production of plant, property and equipment. IPSAS 5, Borrowing Costs prescribes the accounting treatment for borrowing costs.

Antonella Risi: That's a full other standard for us to deal with! In the interest of time, what is relevant from a PP&E perspective?

Camila Santos: I know! It sounds too much, but it Is not really! IPSAS 5 allows two alternatives for recognition of borrowing costs:

- "Benchmark treatment" - borrowing costs are recognized as an expense in the period in which they are incurred regardless of regardless of how the borrowings are applied; and
- "Allowed alternative treatment" - borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are included in the cost of that asset.

Antonella Risi: Is the "benchmark treatment" preferrable over the "allowed alternative treatment"?

Camila Santos: IPSASB offers choices in the application of some of their standards. The preferred choice is labeled the "benchmark treatment" and the other choice "allowed alternative treatment". Following either would still mean that an entity is compliant with the IPSAS 17.

When a public sector entity adopts the allowed alternative treatment under an IPSAS, that treatment 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.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Examples of qualifying assets are PP&E include such items as office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities.
The borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are those borrowing costs that would have been avoided if the outlays on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

"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.

At each reporting date entities are required to assess whether there are any indications that an item of property, plant and equipment may be impaired.

An entity applies IPSAS 21, Impairment of Non-Cash Generating Assets or IPSAS 26, Impairment of Cash Generating Assets.

Although the definition of impairment is the same for both a non-cash generating asset and a cash generating asset, the requirements for assessing whether an asset is impaired, the measurement of impairment and its recognition are different depending on its nature.

IPSAS 21 and IPSAS 26 contain a list of key indicators that an impairment loss may have occurred for noncash generating and cash generating assets, such as:

- Technological, Legal or Policy Changes
- Obsolescence, Physical Damage
- Change In Use
- Cessation Of Construction
- Poor Economic Service Performance
- Increased Market Interest Rates

In assessing whether there is any indication that an asset or group of assets may be impaired an entity shall consider, at a minimum external and internal source of information. The lists of indicators are not intended to be exhaustive. An entity may identify other indications that an asset may be impaired.
If any of those indications of impairment are present, an entity is required to make a formal estimate of recoverable amount or recoverable service amount.

This takes us to the end of the PP&E session. Our next topic on the agenda is Intangible Assets!

IPSAS 31 focuses on recognition of acquired or internally generated intangible assets that meet the asset definition and recognition criteria.

Under IPSAS 31, an intangible asset is an identifiable non-monetary asset without physical substance. Not all the items meet this definition of an intangible asset under IPSAS 31.

An identifiable intangible asset is one that is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged or arises from binding arrangements (contracts).

Intangible assets must be identifiable and in order to be recognized as an intangible asset, it must be controlled by the entity.

There are cases in the public sector where an intangible asset is acquired under a binding arrangement and this definition still applies. Public sector entities often acquire computer software licenses. These generally meet the definition of an acquired intangible asset. With this exception, it is rare for public sector entities to acquire intangible assets under a binding arrangement.

Most acquired intangible assets will meet the criteria for recognition.
Examples include software, brands & trademarks, in-process R&D.
With the exception of software, it is rare for public sector entities to acquire intangible assets.
Intangible assets are measured at cost on initial recognition. If they are acquired through a non-exchange transaction, the deemed cost is the fair value of the intangible asset at the date of acquisition.

Recognition of an internally generated intangible asset has stricter criteria.

Expenditure incurred during the research phase of an intangible asset cannot be capitalized. Expenditure incurred within the development phase of an intangible asset can be capitalized where the recognition criteria are met.

Antonella Risi: And can you tell us the criteria needed to demonstrate that an entity is in the development phase?

Camila Santos: Expenditure on the development phase can be capitalized as an intangible asset where the recognition criteria are met. To recognize expenditure as an intangible asset, IPSAS 31 requires an entity to be able to demonstrate:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
b) Its intention to complete the intangible asset and use or sell it;
c) Its ability to use or sell the intangible asset;
d) How the intangible asset will generate probable future economic benefits or service potential.
e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Most subsequent additions to or replacements of intangible assets are usually expensed.

Antonella Risi: Really? I wouldn't think so! And why does that happen?

Camila Santos: This is because they do not meet the recognition criteria. They are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole.

However, if the expenditure clearly enhances the service potential of original asset, then the recognition criteria may be met. If so, the costs should be capitalized.
Intangible assets may have a finite or an indefinite useful life.

Where an intangible asset has a finite useful life, it is amortized over that useful life.

Where an intangible asset has an indefinite useful life, it is not amortized. However, it is reviewed for impairment at least annually.

Public sector entities may acquire intangible assets through public sector combinations (acquisitions). The accounting for public sector combinations is set out in IPSAS 40, Public Sector Combinations. When an intangible asset is acquired through a public sector combination, the cost of the intangible assets is its fair value at the acquisition date. The probability of future economic benefits or service potential flowing to the entity is always considered to be satisfied for intangible assets acquired in a public sector combination because it expects there to be economic benefits from the combination.

Intangible assets acquired in a public sector combination are recognized separately from goodwill.
If an entity cannot identify the intangible asset, it forms part of goodwill and is not recognized separately.
And this is the end of the Intangible Assets session.

The next item on the agenda is Leases.

The primary issue in accounting for leases is the classification of the lease as either a finance lease or an operating lease. We are going to look at each one of them as part of this session.
IPSAS 13 requires that lease agreements are accounted for in accordance with their economic substance rather than legal form.

Antonella Risi: And what does that mean?

Camila Santos: That means that whether a lease is an operating or finance lease depends on whether the risks and rewards of ownership of the related asset lie with the lessee or the lessor.

Risks – include the possibilities of losses from idle capacity, technological obsolescence, changes in value because of economic conditions.

Rewards – expectation of service potential or profitable operation over the asset's life, gain from appreciation in value or realization of a residual value.

When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately. A lease could include a finance lease for the building element and an operating lease for the land element.

Antonella Risi: So what is a finance lease?

Camila Santos: A finance lease transfers substantially all the risks and rewards of ownership of an asset to the lessee. An operating lease does not.

Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.

A few examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease, but please note that a lease does not need to meet all these criteria in order to be classified as a finance lease:

a) The lease transfers ownership of the asset to the lessee by the end of the lease term;
b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
c) The lease term is for the major part of the economic life of the asset, even if title is not transferred;
d) At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

This list is not exhaustive and there are other indicators listed in IPSAS 13, Leases that you can look at in case you are interested.

Identifiable finance leases may be part of agreements and an assessment needs to be performed to determined if it is a Service concession arrangement as they are common in the public sector. SCAs are discussed later in this workshop. If not SCAs then use IPSAS 13. Professional judgment is needed to determine substance of arrangement when not clear.

Lessees recognize assets acquired under finance leases as assets, and the associated lease obligations as liabilities in their financial statements.

At the start of the lease term, the asset and the liability for the future lease payments are recognized in the financial statements at the same amounts, except for any initial direct costs of the lessee that are added to the amount recognized as an asset.

After initial recognition, assets are accounted for under IPSAS 17 (property, plant and equipment) or IPSAS 31 (intangible assets). This includes transactions such as depreciation and amortization. Where leased assets may be impaired, IPSAS 21 or IPSAS 26 should be applied. All of these standards were already covered as part of this session.

At the initial recognition, the assets and liabilities are recognized at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee’s incremental borrowing rate shall be used.

Minimum lease payments are split between the finance charge and the reduction of the outstanding liability.

The finance charge is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

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The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.

Minimum lease payments are split between the finance charge and the reduction of the outstanding liability.

The finance charge is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

Until this point we were discussing the accounting from a lessee perspective. Now we will look at the lessor accounting.

When a lessor leases an asset under a finance lease, the lessor derecognizes that asset.

Antonella Risi: Why? Isn't the ownership of the asset still with the lessor?

Camila Santos: Yes, but the ownership is not what we should be assessing here. There are a few things to notice. First is that it is not a requirement of IPSAS 13. Rather, it a requirement under the derecognition provisions of IPSAS 17 (property, plant and equipment) or IPSAS 31 (intangible assets).

Second, under a finance lease, the lessor transfers substantially all the risks and rewards of ownership of an asset to the lessee. The lessor, therefore, no longer controls the economic benefits or service potential associated with the asset. It is this loss of control that triggers derecognition.

Lessors recognize lease payments receivable under a finance lease as assets in their statement of financial position.

A receivable is initially recognized at an amount equal to the net investment in the lease.
Antonella Risi: What is the net investment in the lease?

Camila Santos: The net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of:

a) The minimum lease payments receivable by the lessor under a finance lease; and
b) Any unguaranteed residual value accruing to the lessor.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of:

a) The minimum lease payments; and
b) The unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset, and (ii) any initial direct costs of the lessor.

The recognition of finance revenue is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

When a lessor leases an asset under an operating lease, the lessor does not derecognize that asset. The lessor continues to account for the asset under IPSAS 17 (property, plant and equipment) or IPSAS 31 (intangible assets). Depreciable leased assets should be depreciated (or amortized in the case of intangible assets) in a manner that is consistent with the lessor's normal depreciation policy for similar assets.

Lessors recognize lease receipts as revenue. By default, revenue is recognized on a straight-line basis. However, if a different basis better reflects the manner in which the benefits derived from the leased asset are diminished, this basis should be used.

The basis used to recognize lease revenue may differ from the basis on which receipts are received.

Antonella Risi: This is consistent with what we discussed before…

Camila Santos: Yes, you are right. One difference that is worth highlighting is that the initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. This amount is recognized as an expense over the lease term on the same basis as the lease revenue.

A consequence of this requirement is that the initial direct costs may need to be treated as a separate component of the asset.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent, because they are negotiated as a package.

The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not recognized as revenue by the seller-lessee immediately. Instead, the seller-lessee defers the excess and amortizes it over the lease term. This is because the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason, it is not appropriate to regard an excess of sales proceeds over the carrying amount as revenue.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any gain or loss is recognized immediately. There has in effect been a normal sale transaction, so the immediate recognition of any gain or loss is appropriate.

If the sale price is below fair value, any gain or loss is recognized immediately except that, if the loss is compensated by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

The slide summarizes the disclosure requirements for entities with lease transactions.

That takes us to the end of the Leases session.

Let's move to IPSAS 32, Service Concession Arrangements.

Service concession arrangements are concluded by way of a binding arrangement, which may include contracts or similar arrangements that confer similar rights and obligations as if they were in the form of a contract.

Under the concession service arrangement, the operator uses the service concession asset to provide public services on behalf of the grantor in return for compensation. Compensation could be in the form of payments or the right to earn revenue from third-party users of the service.

Let’s dig a little deeper and look at the definition of a service concession arrangement.

- A service concession asset is An asset used to provide public services in a service concession arrangement that:
    - Is provided by the operator which:
        - The operator constructs, develops or acquires from a third party OR
        - Is an existing asset of the operator
    - Is provided by the grantor which:
        - Is an existing asset for the grantor OR
        - Is an upgrade to an existing asset of the grantor

Under IPSAS 32, recognition is based on a determination that the grantor has control over the economic benefits and the service potential of the service concession asset:

a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
b) The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement

Once it is determined that the grantor controls these two items the grantor recognizes an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset…

Once the recognition criteria is met, the grantor initially measures the service concession asset that is provided by the operator and an upgrade to an existing asset of the grantor at its fair value.

If the asset is an existing asset of the grantor it is reclassified as service concession assets. Only when the service concession arrangement involves upgrading an existing asset of the grantor that results in an increase in future economic benefits or service potential of the asset, is it measured initially at fair value in accordance with IPSAS 32.

After initial recognition or reclassification, service concession assets are accounted for in accordance with IPSAS 17, Property, Plant and Equipment or IPSAS 31, Intangibles, as appropriate.

The nature of the liability recognized is based on the nature of the consideration exchanged between the grantor and the operator.

So looking at the diagram, the liabilities are initially measured at the same amount as the service concession asset.

When the grantor compensates the operator for the service concession asset by making payments to the operator, it is a financial liability, and the “financial liability” model is used to measure it.

And this is demonstrated on the left side of the diagram.

When the grantor compensates the operator by granting the right to earn revenue from third-party users of the service concession asset or access to another revenue-generating asset, the liability is measured using the “grant of right model”.

This is displayed on the right side of the diagram.

Antonella Risi: Before we go to the next slide, can you talk a bit more about the financial liability model and the grant of right model?

Camila Santos: There is so much I could say on these models. For the purpose of this workshop I will try to keep it brief. In a Financial Liability Model there is an unconditional obligation to pay a specified amount of cash or another financial asset to the operator. This obligation is recognized as a financial liability And measured in accordance with the financial instrument standards.

In a Grant of Right to the Operator Model, the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator. The service concession arrangement is an exchange transaction in which the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third party users of the public service that it provides on the grantor’s behalf. Therefore, the exchange is accounted for as a revenue generating transaction by the grantor.

Until the criteria for recognition of revenue have been satisfied, the grantor recognizes a liability equivalent to the unearned portion of the revenue that will arise. The earned revenue is recognized over the term of the service concession arrangement.

All aspects of a service concession arrangement are considered in determining the appropriate disclosures in the notes. There are minimum disclosure requirements as you can see on the slide.
The disclosures are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services).

The grantor also applies the relevant presentation and disclosure requirements in other IPSASs as they relate to assets, liabilities, revenues, and expenses recognized under IPSAS 32.

That take us to the end of the Service Concession Arrangements session.

Now I’m going to pass it over to Iman who is going take us through IPSAS 12, Inventories.

Iman Sheikh: Inventories are assets:

a) In the form of materials or supplies to be consumed in the production process.
b) In the form of materials or supplies to be consumed or distributed in the rendering of services (for example, educational books produced by a health authority for donation to schools or educational/training course materials);

c) Held for sale or distribution in the ordinary course of operations including land and other property held for sale; or
d) In the process of production for sale or distribution.

READ THE SLIDE

Inventories should be measured at the lower of cost and net realizable value.

The cost of inventories includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

AND Inventories are measured at the lower of cost and current replacement cost where they are held for:
a) Distribution at no charge or for a nominal charge; or
b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

And lastly, in a non-exchange transaction, an entity would receive inventory items without directly giving approximately equal value in exchange.

Under such circumstances, the cost of inventory is its fair value as at the date it is acquired. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace.

Antonella Risi: What is net realizable value and current replacement cost?

Iman Sheikh: Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Net realizable value for inventories may not equal fair value less costs to sell.
Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

When inventories are sold, exchanged, or distributed, the carrying amount of those inventories is 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 the related service is rendered.

For a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

Here on this slide, we have some of the Inventory disclosures requirements:
a) The accounting policies adopted in measuring inventories, including the cost formula used;
b) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
c) The carrying amount of inventories carried at fair value less costs to sell;
d) The amount of inventories recognized as an expense during the period;

And that take us to the end of this session.

IPSAS 27 prescribes the accounting treatment and disclosures for agricultural activity.

Antonella Risi: Agricultural activity sounds really broad! Could you explain what that means?

Iman Sheikh: Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for:

- Sale;
- Distribution at no charge or for a nominal charge; or
- Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.

And biological assets are living plants or animals. IPSAS 27 deals with the accounting of biological assets except for bearer plants.

I will talk a bit more about bearer plants in the next slide. For now I did want to mention a few other things.

Biological assets are used in many activities undertaken by public sector entities. If biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities they are not accounted for in accordance with IPSAS 27. When they meet the definition of an asset, other IPSASs should be considered in determining the appropriate accounting (e.g., IPSAS 12, Inventories and IPSAS 17).

IPSAS 27 does not deal with the processing of agricultural produce after harvest and biological assets held for provision or supply of services.

Antonella Risi: Before you go to the next slide can you talk a bit more about these two scope exclusions.

Iman Sheikh: Sure.

An example of agriculture produce after harvest is the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in IPSAS 27.

With respect to biological assets held for provision or supply of services, examples of such biological assets include horses and dogs used for policing purposes and plants and trees in parks and gardens operated for recreational purposes. These biological assets are not held for use in an agricultural activity because they are not routinely managed for the purpose of measuring and monitoring the change in quality or quantity brought about by biological transformation or harvest, as described in IPSAS 27.

Antonella Risi: Thank you Iman. That information was very helpful.

Iman Sheikh: On this slide we have the definition of a bearer plant.

READ THE SLIDE.

Bearer plants are accounted for in accordance with IPSAS 17, Property, Plant, and Equipment. This reflects the fact that the benefits provided by bearer plants are consistent with other property, plant, and equipment.

Antonella Risi: Based on what you just said, sounds like animals, let's say a sheep that bears produce, like wool, would meet the definition you just outlined.

Iman Sheikh: Not really. The definition of a bearer plant does not include animals, even if the animal is expected to bear produce for more than one period.

On this slide we have not only examples of biological assets but also agricultural produce and products that are the result of processing after the point harvest.

Read some examples.

Antonella Risi: To make sure I understand the previous slides, biological assets (except bearer plants) and agriculture produce at the point of harvest are in scope of IPSAS 27 but the third column, the results of processing after harvest are not?

Iman Sheikh: That's correct. After the point of harvest, IPSAS 12, or another applicable Standard, is applied.

The same general recognition principles for all other assets apply. READ THE SLIDE.

READ THE SLIDE

READ THE SLIDE.

And that take us to the end of this session.

We will now look at IPSAS 16, Investment Property.

READ THE SLIDE

READ THE SLIDE

Antonella Risi: From what you just said, IPSAS 16 distinguishes investment property from owner-occupied property, which is outside the scope of the standard…And I am assuming that owner occupied property is property held by the owner where the owner conducts its business. I may not be using the right words here. But is that the message you are trying to portray?

Iman Sheikh: I understand what you are saying. To help you out a bit, IPSAS 16 defines owner-occupied property as property held by the owner or by the lessee under a finance lease for use in the production or supply of goods or services, or for administrative purposes.

Here we have examples of investment property, and items that are not investment property. Mention 1 example of each.

The general asset recognition principles apply equally for investment property as any other asset.

READ THE FIRST BULLET ON THE SLIDE

Antonella Risi: What is included in the cost of an investment property?

Iman Sheikh: The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes, and other transaction costs.

The cost of investment property is not increased by:

a) Start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management);
b) Operating losses incurred before the investment property achieves the planned level of occupancy; or
c) Abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.

An investment property may be acquired through a non-exchange transaction.

IPSAS 16 permits two approaches to subsequent measurement. An entity chooses as its accounting policy either the fair value model or the cost model, and applies that policy to all of its investment property.
Antonella Risi: What if an entity wants to change its accounting policy? Is it possible?

Iman Sheikh: IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors, allows an entity to subsequently change its accounting policy where this will produce reliable and more relevant information. However, IPSAS 16 notes that it is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.

After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with IPSAS 17's requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.

This takes us to the end of IPSAS 16.