

Introduction to International Public Sector Accounting Standards (IPSAS)

The PSA Handbook is the primary authoritative source of public sector GAAP.

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Disclaimer

The Handbook of International Public Sector Accounting Pronouncements is the primary authoritative source of international generally accepted accounting principles for public sector entities.

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SESSION 2: Assets

Session Agenda



Introduction



Property, Plant
and Equipment



Intangible
Assets



Leases



Service
Concession
Arrangements



Inventories



Agriculture



Investment
Property

Definition of an Asset



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



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.

Asset Recognition Criteria

An item that meets the definition of an asset should be recognized if:

- It is probable that any future service potential or economic benefit associated with the asset will flow to the entity; and
- The cost or fair value of the item can be measured reliably



IPSAS[®] 17: Property, Plant and Equipment (PP&E)

Definition of PP&E

- PP&E are 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



Scope Limitations

- **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
- **Does not** require, but does not preclude, the recognition of heritage assets



Recognition Principle

- The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:
 - It is probable that future service potential or economic benefits associated with the item will flow to the entity
 - The cost or fair value of the item can be measured reliably



Initial Measurement

- An item of PP&E that qualifies for recognition as an asset is measured at its cost
- The cost of an item of property, plant, and equipment 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
- Cost of an item acquired in a non-exchange transaction is its fair value at acquisition date

Measurement after Initial Recognition

Cost model - property, plant, and equipment is carried at its cost, less any accumulated depreciation and any accumulated impairment losses.

Revaluation model - property, plant, and equipment is carried at a revalued amount, being its fair value less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Comparison of Models

	Cost Model	Revaluation Model
Initial	Cash price or equivalent or fair value at date of acquisition	
Subsequent	Original cost less accumulated depreciation and impairment losses since recognition	Fair value at date of revaluation less accumulated depreciation based on revaluated amount and impairment losses subsequent to revaluation date

Depreciation

- 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
- Depreciation begins when an asset is in operation
- Reviewed at each annual reporting date
- Each significant component is depreciated separately

Derecognition

- 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
- Gain or loss on derecognition is included in surplus or deficit
- A replaced component is derecognized



PP&E Primary Disclosures

- 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.

Borrowing Costs – IPSAS 5



“Benchmark treatment” - borrowing costs expensed in the period incurred



“Allowed alternative treatment” - borrowing costs directly attributable to acquisition of qualifying asset included in cost

- Qualifying asset is one that takes a substantial period of time to get ready for its intended use (PP&E, some inventories, intangible assets)
- Guidance provided on which costs are eligible

Impairment – IPSAS 21 and IPSAS 26

- A loss in future economic benefits or service potential in excess of depreciation
- Assessed at each reporting date
- IPSAS 21, *Impairment of Non-Cash Generating Assets* or IPSAS 26, *Impairment of Cash Generating Assets*
 - A cash-generating asset is held with the primary objective of generating commercial return
 - Non-cash-generating assets are all other assets
- Asset is written down to recoverable amount if impaired

Indicators of Impairment



Technological,
Legal or Policy
Changes



Obsolescence,
Physical
Damage



Change
In Use



Cessation Of
Construction



Poor Economic
Service
Performance



Increased
Market Interest
Rates

Non-Cash Generating

- No demand/need for services

Cash Generating

- Decline in market value

IPSAS[®] 31: Intangible Assets

Intangible Assets – IPSAS 31

Definition

- An identifiable non-monetary asset without physical substance
- Capable of being separated or divided from the entity

Scope

- Acquired or internally generated intangible assets
- Acquired through a public sector combination (acquisition)
- Satisfy recognition criteria
- Powers and rights excluded from scope
- Intangible heritage assets - if recognize, must disclose

Intangible Assets

Item must be

- Identifiable – separable or arises from binding arrangements
- Controlled – for intangibles often stems from legal rights or ability to restrict access by others to benefits

Recognize when

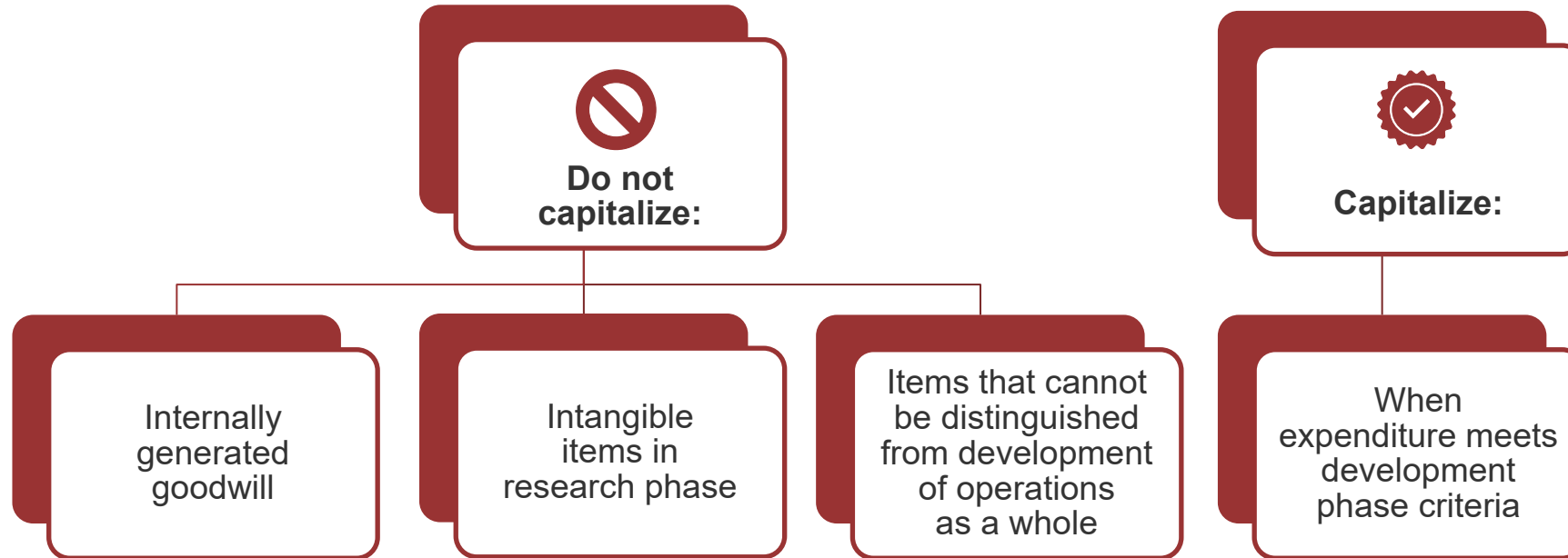
- Meet criteria above
- Probability of future service potential/economic benefit
- Cost or fair value measured reliably

Acquired Intangibles

- Most acquired intangible assets will meet criteria for recognition
 - Examples: software, brands & trademarks, in-process R&D
 - If acquired through non-exchange transaction, cost is fair value at date of acquisition



For Internally Generated Intangibles



Other Issues

- Subsequent additions to or replacements of intangible assets usually expensed
- May capitalize if expenditure clearly enhances service potential of original asset e.g. software enhancements
- Assess finite or indefinite useful life – if finite amortize; if indefinite review for impairment annually
- Disclosures



Intangible Assets Acquired in a Public Sector Combination (Acquisition)

- Cost is fair value at acquisition date
- Intangible asset must be identifiable (to distinguish it from goodwill)
- Recognized even if not previously recognized by acquired operation



IPSAS[®] 13: Leases

Classifying Leases

- IPSAS 13, *Leases* requires the classification of a lease as either a finance lease or an operating lease
- Based on whether risks and rewards of ownership substantially transferred
- Risks – losses from idle capacity, technological obsolescence, changes in value because of economic conditions
- Rewards – expectation of service potential or profitable operation, gain from appreciation in value
- Land and buildings elements of a lease classified separately

Finance Leases

- Risks and rewards incidental to ownership are substantially transferred
- Depends on substance over form
- Some examples:
 - Ownership of asset transferred to lessee at end of term
 - Option to purchase asset at price well below market value
 - Lease term is for major part of economic life of asset
 - PV of minimum lease payments is fair value of asset

Lease or Service Concession Arrangement (SCA)?

- Lease could be element of broader agreements
- PPPs – especially re long-lived assets and infrastructure assets
- Need to assess whether an SCA
- If not an SCA, and contains identifiable operating/finance lease, IPSAS 13 applies for the lease component of arrangement



Lessee Accounting – Financial Leases

- Leased assets and lease obligations recognized
- Assets subsequently accounted for as:
 - Property, Plant and Equipment (IPSAS 17)
 - Intangible Assets (IPSAS 31)
- Initially at lower of
 - Fair value of the leased property
 - Present value of minimum lease payments
- Discount rate is interest rate implicit in lease
- Minimum lease payments split between finance expense and reduction of liability

Lessee Accounting – Operating Leases

- Leased assets and lease obligations **not** recognized
- Lease payments recognized as an expense
 - Straight line basis
 - Other basis only if representative of the time pattern of the user's benefit
 - Does not necessarily reflect cash payments



Lessor Accounting – Finance Leases

- Property, plant and equipment or intangible asset leased is derecognized
- Lease payments receivable recognized as an asset (receivable)
- Initial recognition at an amount equal to the net investment in the lease
- Recognition of finance revenue reflects a constant periodic rate of return on the net investment

Lessor Accounting – Operating Leases

- Leased Assets **not** derecognized
 - Depreciation (IPSAS 17) or amortization (IPSAS 31), consistent with other similar assets
- Lease receipts recognized as revenue
 - Straight line basis
 - Other basis only if more representative of the time pattern in which benefits derived from the leased asset is diminished
 - Does not necessarily reflect cash receipts
- Initial Direct Costs
 - Added to carrying amount of asset
 - Expensed over lease term

Sale and Leaseback Arrangements

- Transaction results in a finance lease:
 - Any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term
- Transaction results in an operating lease:
 - Sale price equals fair value, gain or loss recognized immediately
 - Sale price below fair value, gain or loss recognized immediately
 - Except where compensated by future lease payments at below market price – deferred and amortized in proportion to the lease payments
 - Sale price above fair value, excess over fair value is deferred and amortized over the period for which the asset is expected to be used

Disclosure Requirements

Minimum Lease Payments

- Payable (lessee) or receivable (lessor)
- Up to one year; between one and five years; and over five years.

Assets and Liabilities

- Finance leases only

Assets and Liabilities

- General description of material / significant leasing terms
- Contingent rents
- Subleases (lessees)
- allowance for uncollectable amounts, unguaranteed residual values (finance lease lessors)

IPSAS[®] 32: Service Concession Arrangements

Service Concession Arrangement

- A binding arrangement between a grantor and an operator in which
 - The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and
 - The operator is compensated for its services over the period of the service concession arrangement

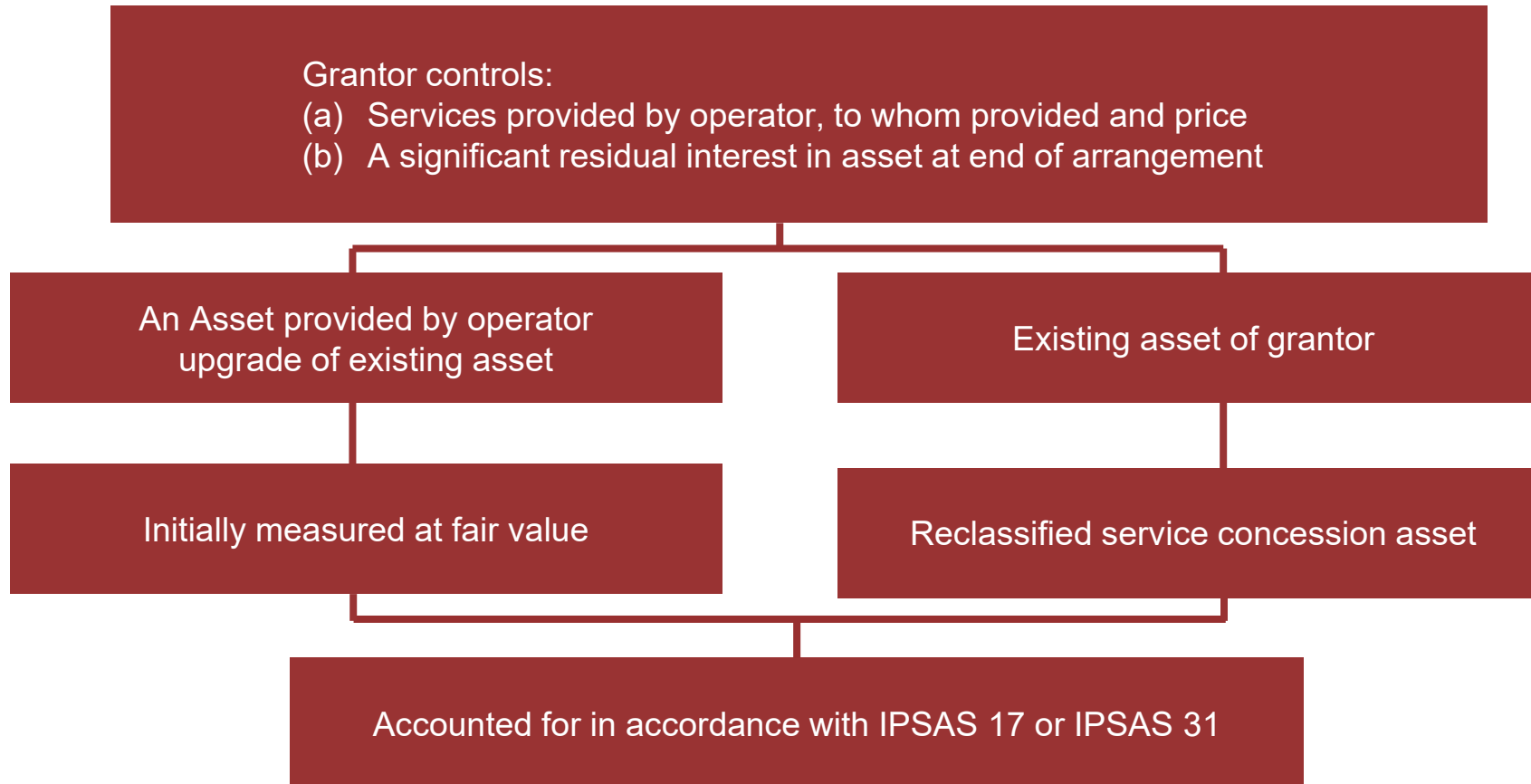


Service Concession Asset

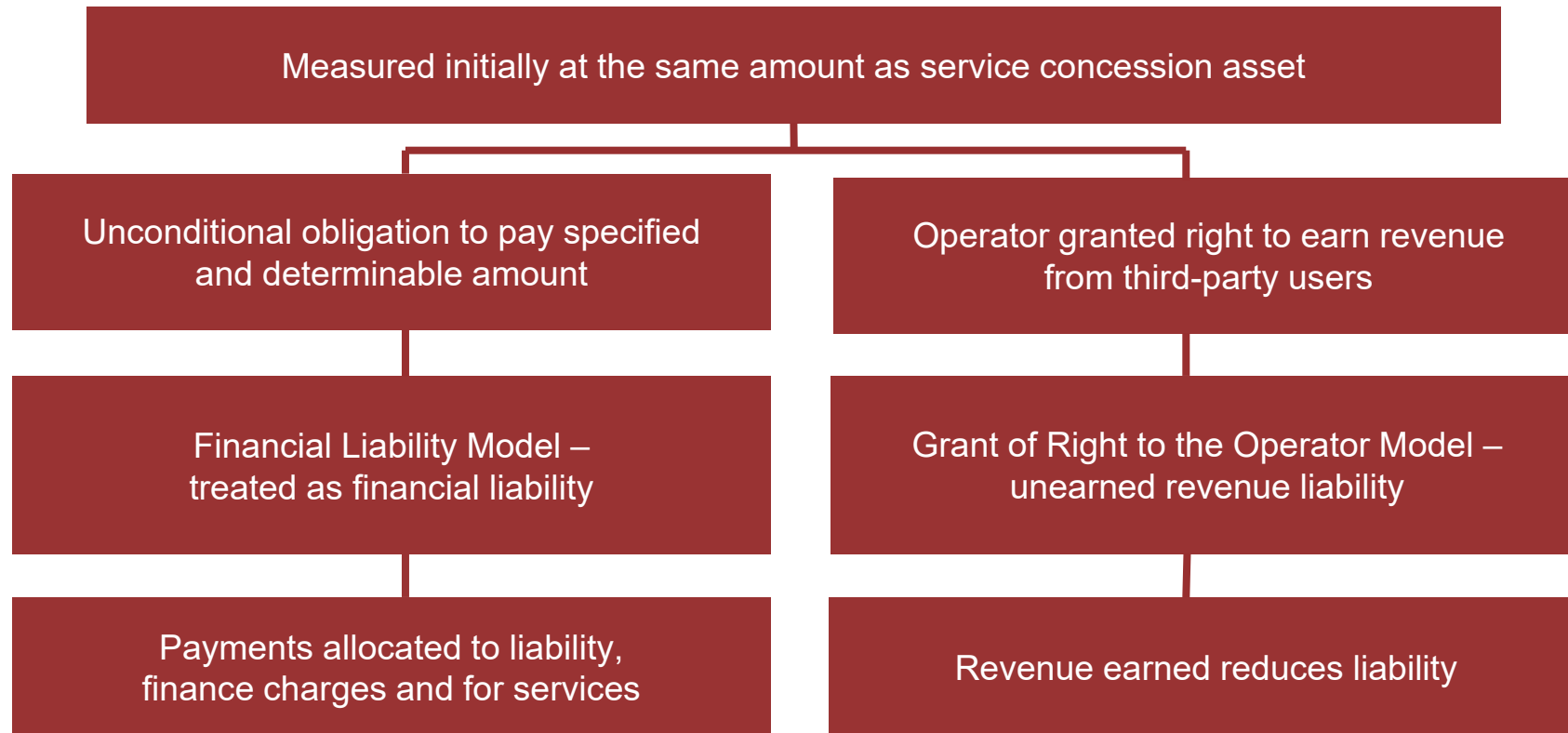
- An asset used to provide public services in a service concession arrangement that:
 - Is provided by the operator which:
 - The operator constructs, develops or acquires from a third party OR
 - Is an existing asset of the operator
 - Is provided by the grantor which:
 - Is an existing asset for the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



Grantor Recognizes Asset When



Recognition of Liabilities



Presentation and Disclosures

- A description and significant terms of the arrangement
- The nature and extent of rights under the arrangement
- Changes in an arrangement
- Disclosures required by other IPSASs

IPSAS[®] 12: Inventories

Inventories – IPSAS 12

Definition

- Materials or supplies to be
 - Consumed in a production process
 - Consumed or distributed in the rendering of services
- Items held for sale or distribution in the ordinary course of operations (finished goods, land held for sale)
- Work-in-progress

Example of Inventories

Military inventories (e.g., ammunition, missiles, rockets & bombs)	Consumables	Finished goods
Land and property held for sale	Maintenance materials	Spare parts
Strategic stockpiles such as energy reserves	Stocks of unused postal stamps and currency	Work-in-progress

Measurement

- Lower of cost and net realizable value (except as below)
- Fair value when acquired in non-exchange transaction
- Lower of cost and current replacement cost when held for distribution or consumption in production of goods to be distributed at no or nominal charge



Expense Recognition

- When sold, exchanged, or distributed the carrying amount is expensed in the period in which related revenue is recognized
- If no related revenue, expensed when the goods are distributed or services rendered
- Service providers recognize expense when services are rendered or billed
- Write-downs or losses expensed when occur

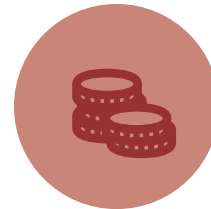
Inventory Disclosures



Accounting policies



Amount by classification and in total



Amount of inventories carried at fair value



Amount recognized as an expense



Amount and circumstances for write downs or reversals

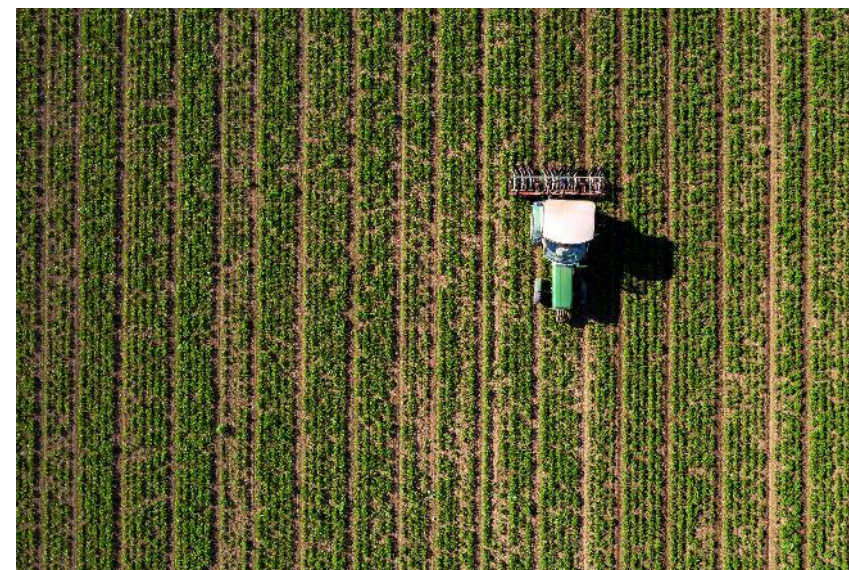


Amount pledged as security

IPSAS[®] 27: Agriculture

Scope

- Biological assets – living plant or animal (except bearer plants)
- Agricultural produce – point of harvest
- Excludes:
 - Land related to agricultural activity
 - Intangible assets related to agricultural activity
 - Biological assets held for provision or supply of services



Bearer Plants

- A bearer plant is a living plant that:
 - Is used in the production or supply of agricultural produce
 - Is expected to bear produce for more than one period
 - Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales
- Bearer plants are accounted for in accordance with IPSAS 17



Examples

Biological assets	Agricultural produce	Products – result of processing after harvest
Sheep	Wool	Yarn/carpet
Trees in timber plantation	Felled trees	Logs, lumber
Cotton plants	Harvested cotton	Thread, clothing
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured ham
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit

Recognition

- Recognize biological asset or agricultural produce when:
 - Entity controls asset as result of past event
 - Probable future economic benefits/service potential will flow to entity
 - Fair value or cost can be measured reliably



Initial and Subsequent measurement

- Initial
 - Measured at fair value less costs to sell
 - If non-exchange transaction, same
 - Agricultural produce harvested from biological assets measured at fair value less costs to sell at point of harvest
 - Grouping according to attributes allowed
- Subsequent
 - Measured at Fair Value less Costs to Sell at each reporting date
 - Agricultural Produce - Fair Value less Costs to Sell at point of harvest
 - Gains or losses – Recognized in Surplus or Deficit for the period in which they arise

Disclosure

- Gain/loss on initial recognition
- Consumable/bearer biological assets
- Biological assets held for sale and those held for distribution at no/nominal charge
- Nature of activities & estimates of physical quantities
- Reconciliation

IPSAS[®] 16: Investment Property

Scope

- IPSAS 16 applies to *Investment Property*, including:
 - The measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease; and
 - The measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease.

Definition of Investment Property

- Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for:
 - a) Use in the production or supply of goods or services, or for administrative purposes; or
 - b) Sale in the ordinary course of operations.
- Investment property is distinguished from owner-occupied property
 - Owner-occupied property is outside the scope of IPSAS 16

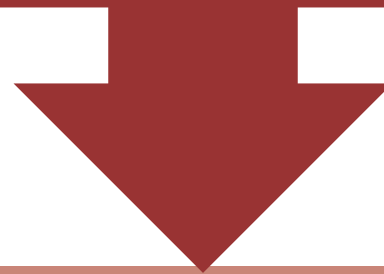
Examples of Investment Property

Investment Property	Not Investment Property
Land held for long-term capital appreciation	Property held for sale in the ordinary course of operations
Land held for a currently undetermined future use	Property being constructed or developed on behalf of third parties
A building leased out under an operating lease on a commercial basis	Property that is leased to another entity under a finance lease.
A vacant building held to be leased out under an operating lease on a commercial basis	Property held to provide a social service and which also generates cash inflows
Property that is being constructed or developed for future use as investment property	Property held for strategic purposes

Recognition Principle

Investment property shall be recognized as an asset when, and only when:

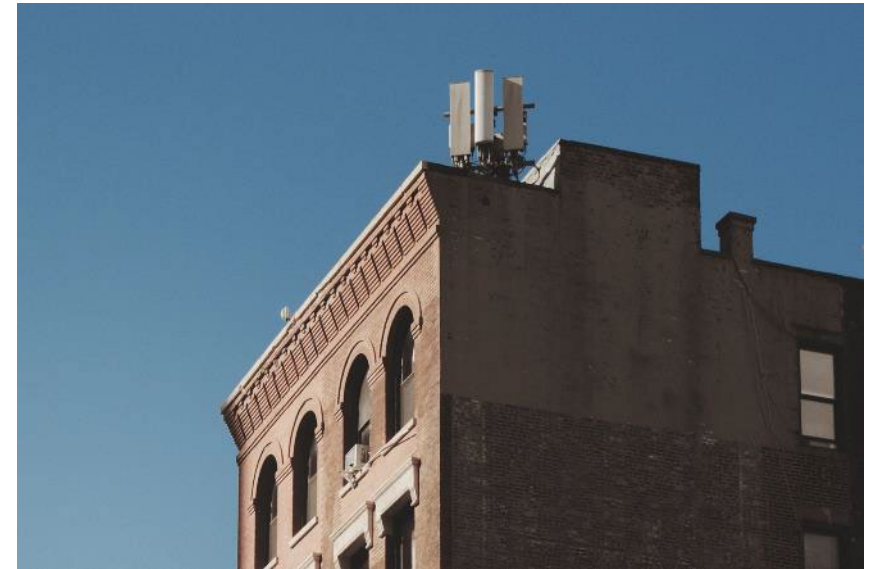
It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and



The cost or fair value of the investment property can be measured reliably.

Measurement at Recognition

- Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).
- Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.



Subsequent Measurement

- An entity may choose its accounting policy in respect of investment property:
 - Cost model
 - Investment property is measured in accordance with the cost model in IPSAS 17
 - The fair value of investment property is disclosed.
 - Fair value model

