SESSION 2:
Assets

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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

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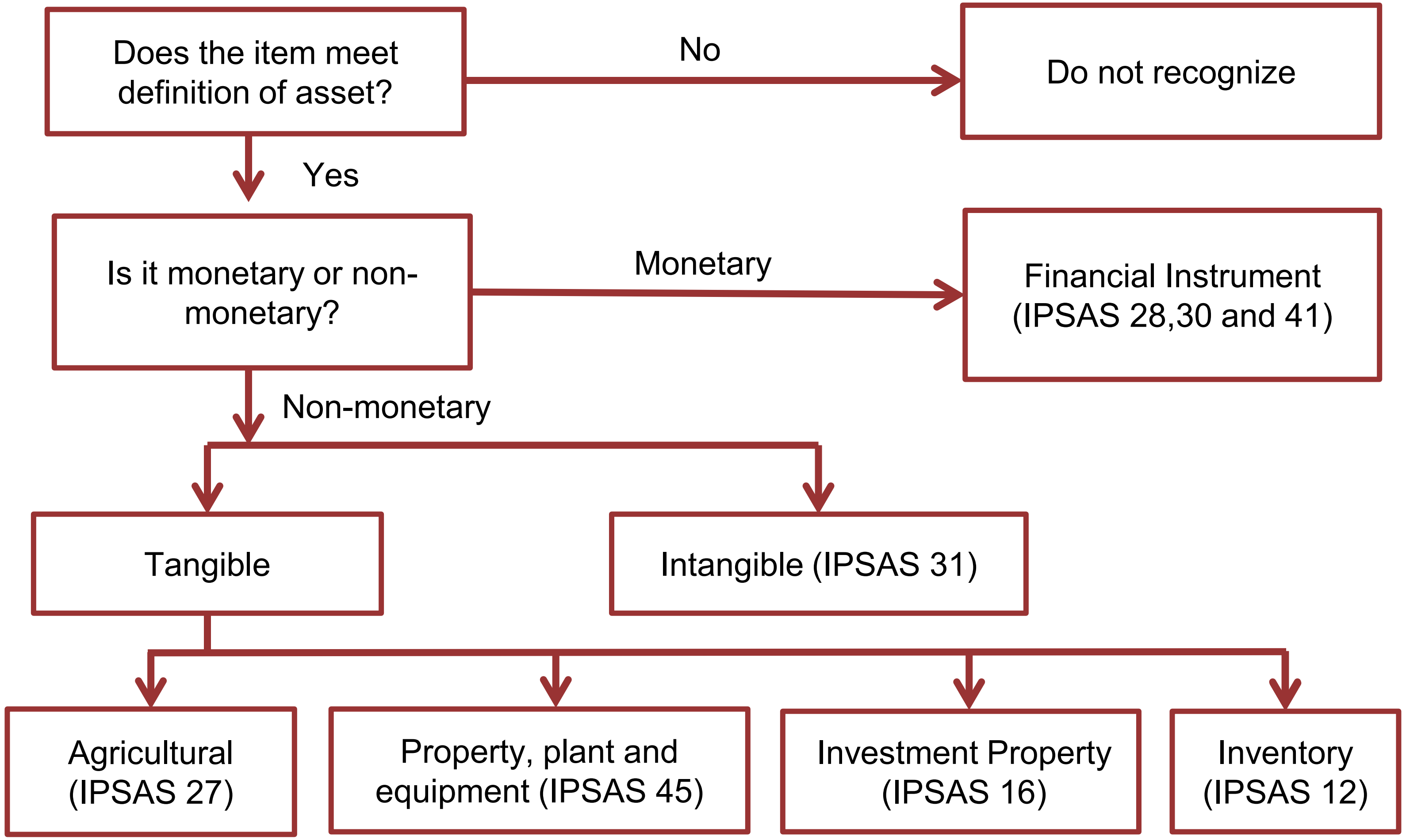
Decision Tree



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IPSAS® 45: Property, Plant and Equipment (PP&E)

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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
- Tangible heritage assets meet the definition

Scope Limitations

- **Does not** apply to:
  - Biological assets related to agricultural activity
  - Mineral reserves such as oil, natural gas, and similar non-regenerative resources
  - PP&E classified as held for sale under IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*
  - The recognition and measurement of exploration and evaluation assets

Recognition Principle

- The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:
  - o it is probable that future service potential or economic benefits associated with the item will flow to the entity; and
  - o 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
- Elements of cost includes:
  - 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 measured at deemed cost. Deemed cost is measured by applying IPSAS 46, *Measurement.*

Measurement after Initial Recognition

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

Current Value Model - property, plant, and equipment whose current value can be measured reliably is carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Comparison of Models

	Historical Cost Model	Current Value Model
Initial	Cost (cash price or equivalent) or deemed cost at date of acquisition	
Subsequent	Original cost	Current operational value or fair value at date of revaluation
Carrying Amount	Original cost less accumulated depreciation and impairment losses since recognition	Revalued amount less accumulated depreciation based on revalued amount and impairment losses subsequent to revaluation date

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Depreciation

- All PP&E with finite useful life is subject to depreciation
  - Rebuttable presumption: Non-land PP&E items have finite useful life
- Key Points:

✓ Depreciable amount expensed systematically over useful life

✓ Recognized in surplus/deficit or carrying amount of another asset

✓ Depreciation starts when asset is in operation

✓ Depreciation ends when asset is held for sale or derecognized

✓ Reviewed annually

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

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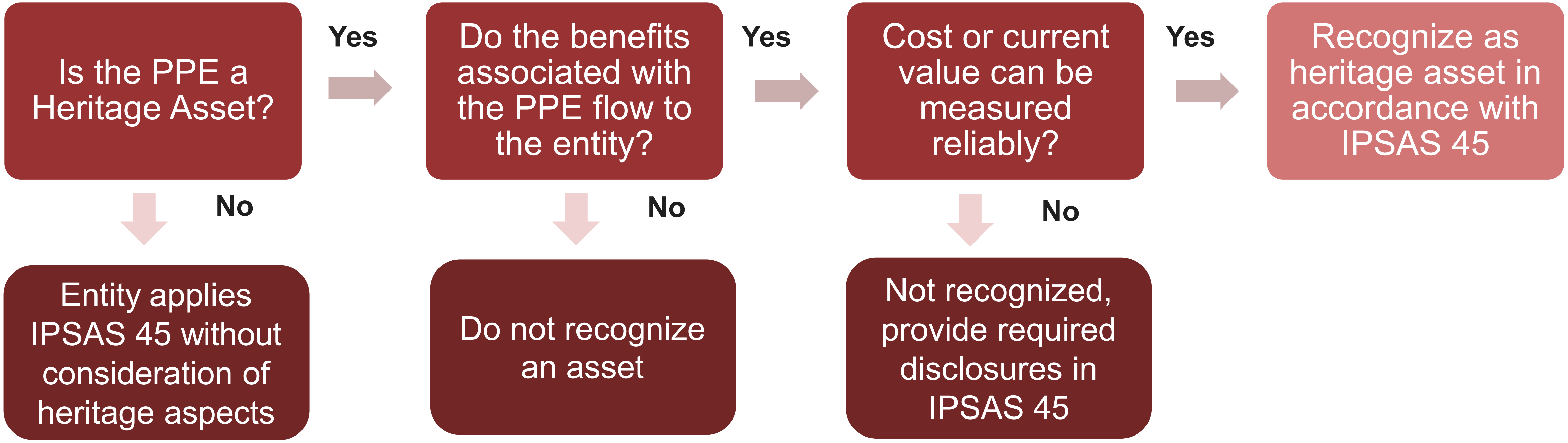
Heritage Assets – Decision Tree



Useful Life of Heritage Assets

Heritage Assets with Indefinite Useful Life

- **Service Potential** – No foreseeable limit to the period over which the asset provides service potential.
- **Main factors to consider:**
  - Period providing service potential – to the best of the entity's knowledge, the asset is expected to provide service potential indefinitely
  - Usage – should not result in physical wear and tear to the asset
  - Preservation – past actions known and preservation plan in place

Accounting for Land

Land Under or Over Infrastructure

Separate Accounting for Land

- All land should be accounted for separately, including land **under** or **over** infrastructure assets.
- Land under or over infrastructure assets accounted for under the current value model should be valued at:
  - Current operational value, or
  - Fair value

Accounting for Land

Land Under or Over Infrastructure

- **Infrastructure** – Specialized assets, market approach will often be challenging to apply - cost approach will be easier
- **IPSAS 46, *Measurement*** – cost approach is a technique that reflects current replacement cost
  - Current replacement cost of the land under or over infrastructure is based on the current value of the land based on the existing site

Depreciation of Infrastructure

Identifying Significant Parts

- **Apply judgment**– to determine if components are significant in relation to the entire infrastructure asset networks or system
- Indicators can be helpful in identifying significant parts

Indicator	Explanation	Example
Separately Identifiable and Measurable	Components can be distinctly defined and valued within the network.	A bridge foundation vs. its superstructure.
Significant Value Relative to the Asset	Cost or replacement value materially impacts the network's total value.	High-cost components like rail tracks in a transit system.
Different Estimated Useful Lives	Parts degrade or require replacement at varying intervals.	Road pavement (15-year life) vs. underlying drainage systems (30-year life).

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 and current value measurements

Other disclosures

e.g., restrictions on title, contractual commitments etc.

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IPSAS 5, *Borrowing Costs*

- “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

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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

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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

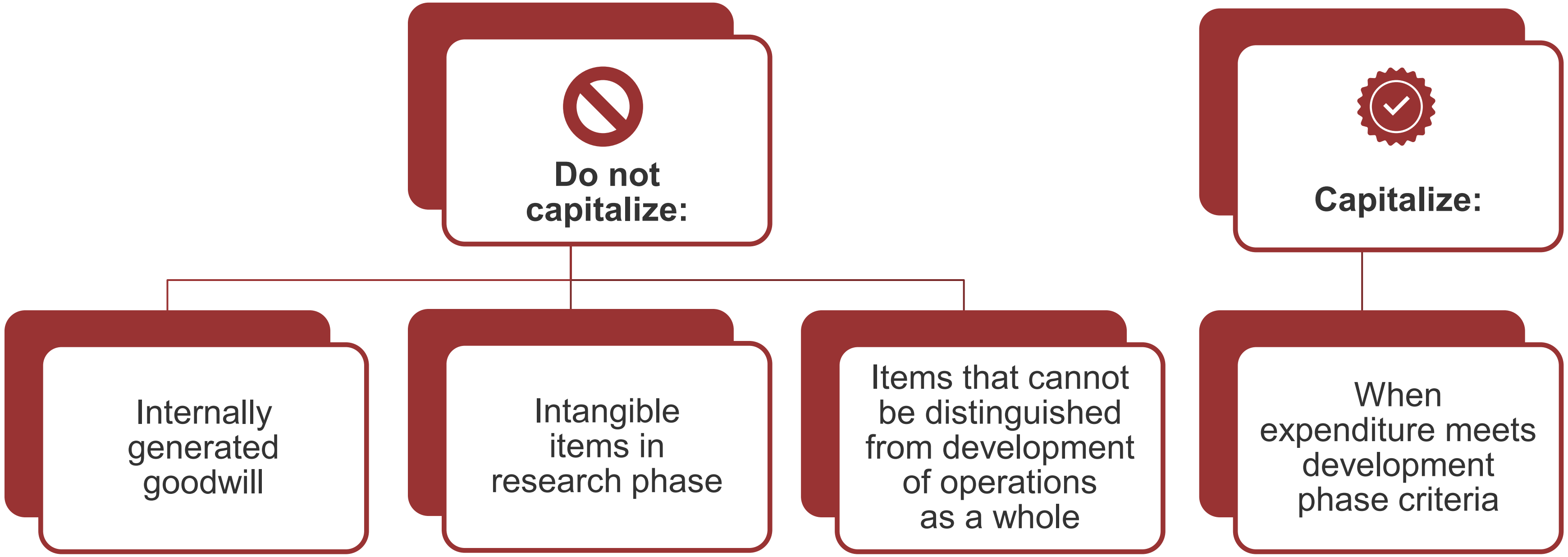
Recognize when

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

Acquired Intangibles

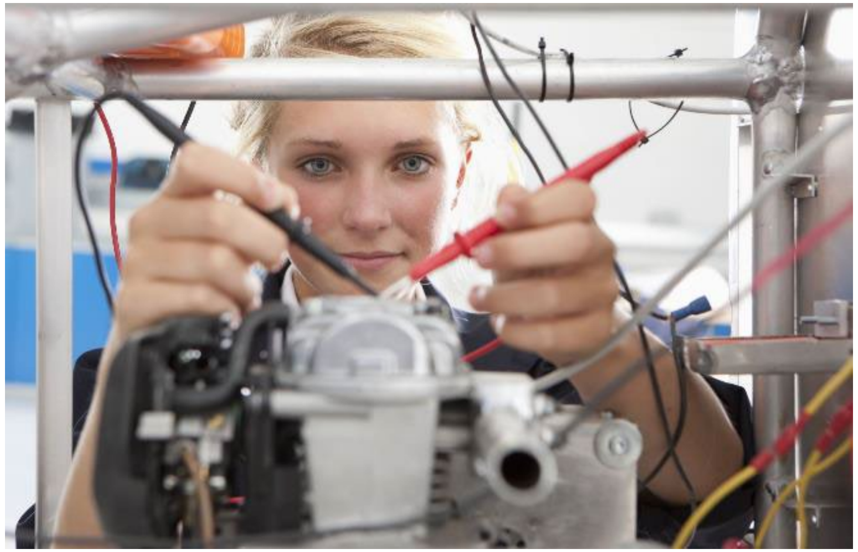
- Most acquired intangible assets will meet criteria for recognition
  - Examples: software, brands & trademarks, in-process R&D
  - If acquired through non-exchange transaction, cost is
    fair value at date of acquisition

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



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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® 43: Leases

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Scope

IPSAS 43 is applied in accounting for all leases except:

- Leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources
- Leases of biological assets within the scope of IPSAS 27, *Agriculture,* held by lessees
- Service concession arrangements within the scope of IPSAS 32, *Service Concession Arrangements: Grantor*
- Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents, and copyrights

A lessee may, but is not required to, apply IPSAS 43 to leases of intangible assets other than licensing arrangements

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Accounting models used in IPSAS 43

Lessee Accounting

- Right-of-Use Model
- Same accounting for all leases (except short-term and low-value leases)

Lessor Accounting

- Risk and Reward Model
- Finance lease / operating lease split

Definitions

A **lease** is a contract, or part of a contract, that conveys the **right to use an asset** (the **underlying asset**) for a period of time in exchange for consideration.

Underlying asset is an asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.

A right-of-use asset is an asset that represents a lessee's right to use an underlying asset for the lease term.

Period of use is the total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).

Identifying a Lease

Is this contract a lease?

A lease exists if the contract conveys:

- The right to control the use of an identified asset
- For a period of time
- In exchange for consideration

Conditions (Must Meet Both):

- **Economic Benefits/Service Potential:** The customer has the right to obtain substantially all economic benefits or service potential from the asset's use.
- **Decision-Making Power:** The customer has the right to direct how and for what purpose the asset is used.

Separating components of a contract

General Treatment:

- Separate accounting for lease components from non-lease components
- Lessee allocation: Based on relative stand-alone prices of lease vs. non-lease components
- Lessor allocation: Apply IPSAS 47 (Revenue) principles

Practical Expedient - Lessee election (by asset class):

- Combine lease + associated non-lease components
- Treat as single lease component

Lease Term

The lease term is the non-cancellable period of a lease, together with both:

(1) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(2) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Reasonably certain - consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

Lease Accounting: Recognition

At the commencement date, a lessee shall recognize:

- Right-of-use (ROU) asset
- Lease liability

Definitions

- **Right-of-use (ROU) Asset**: The lessee’s right to control the use of an underlying asset for the lease term.
- **Commencement Date**: The date when the lessor makes the asset available for the lessee’s use.

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Lessee Accounting: Recognition Exceptions

Key Exemptions (Lessee Election):

- **Short-Term Leases**: Lease term ≤ 12 months at commencement
- **Low-Value Leases**: Underlying asset value is insignificant

Accounting Treatment (If Elected):

- Lease Payments Expensed:
  - Straight-line over lease term OR
  - Another systematic basis

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Lessee Accounting: Initial Measurement of Right of Use Asset

At the commencement date, a lessee shall measure the right-of-use asset at cost.

Cost of right of use asset

=

Amount of the initial measurement of the lease liability

+

Lease payments made at or before the commencement date

−

Lease incentives received

+

Initial direct costs incurred by the lessee

+

Estimate of costs to be incurred restoring the site or asset

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Lessee Accounting: Initial Measurement of Lease Liability

At the commencement date, lessee measures the lease liability at the **present value of the lease payments** that are not paid at that date

The lease payments are discounted using **the interest rate implicit in the lease**, if that rate can be readily determined

If that rate cannot be readily determined, the lessee uses the lessee's incremental borrowing rate

Lessee Accounting: Components of Lease Liability

Fixed payments (including in-substance fixed payments)

−

Lease incentives receivable

+

Variable lease payments that depend on an index or a rate

+

Amounts expected to be payable under residual value guarantees

+

Exercise price of a purchase option (if reasonably certain)

+

Payments of penalties for termination (lease term reflects termination)

Lessee Accounting: Subsequent Measurement of Right-of-Use Asset

After the commencement date, lessee measures the right-of-use asset applying a historical cost model, unless other measurement models are applied.

Historical Cost Model:

- Measure the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses (apply IPSAS 21 or IPSAS 26)
- Depreciation period is useful life of underlying asset if ownership will transfer at end of lease, otherwise over lease term (or useful life of right of use asset if shorter)
- Adjusted for remeasurement of the lease liability

Lessee Accounting: Other Measurement Models for Right-of-Use Asset

If a lessee applies the fair value measurement basis in the current value model in IPSAS 16, *Investment Property,* to its investment property, the lessee applies that fair value measurement basis to right-of-use assets that meet the definition of investment property

If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the current value model in IPSAS 45, *Property, Plant, and Equipment*, a lessee may elect to apply that current value model to all of the right-of-use assets that relate to that class of property, plant and equipment

Lessee Accounting: Subsequent Measurement of Lease Liability

Lessee measures the lease liability by considering the following:

- Interest Accrual: Increase the carrying amount to reflect interest on the lease liability.
- Lease Payments: Reduce the carrying amount to reflect lease payments made.
- Reassessments and Modifications: Remeasure the carrying amount to reflect any reassessment, lease modifications, or revised in-substance fixed lease payments.

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Lessee Accounting: Costs Recognized in Surplus or Deficit

Lessee recognizes in surplus or deficit:

- Interest on the lease liability
- Variable lease payments not included in the measurement of the lease liability
- Depreciation of the right of use asset
- Impairment of the right of use asset

Lessee Accounting: Reassessment of Lease Liability

Remeasurement of Lease Liability

Reflects changes in lease payments

Adjustment recognized in the right-of-use asset

Adjustment to Right-of-Use Asset

If the carrying amount of the right-of-use asset is reduced to zero, further reductions are recognized in surplus or deficit

Revised Discount Rate

Used if there is a change in the lease term or an assessment of an option to purchase the underlying asset

Discounting Lease Payments

Revised if there is a change in residual value payments or payments resulting from a change in an index or rate

Lessee Accounting: Lease Modifications - Separate Lease

Lessee accounts for a lease modification as a separate lease if both:

The modification increases the scope of the lease by adding the right to use one or more underlying assets

+

The consideration for the lease increases by the stand-alone price for the increase in scope and any appropriate adjustments

Lessee Accounting: Lease Modifications - Modified Contract

Lease modification not accounted for as a separate lease:

- Allocate the consideration in the modified contract
- Determine the lease term of the modified lease
- Remeasure the lease liability by discounting the revised lease payments using a revised discount rate

Account for the remeasurement of the lease liability:

- Decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease (lease modifications decrease the scope of the lease recognize any gain or loss in surplus or deficit)
- Make a corresponding adjustment to the right-of-use asset for all other lease modifications

Lessee Accounting: Presentation

Present in the statement of financial position or disclose in the notes:

- Right-of-use assets separately from other assets
- Lease liabilities separately from other liabilities

Statement of financial performance

- Present interest expense on the lease liability separately from depreciation on the right-of-use asset

In the cash flow statement, classify:

- Cash payments for the principal portion within financing activities
- Cash payments for the interest portion applying the requirements in IPSAS 2, *Cash Flow Statements* for interest paid
- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities

Lessee Accounting: Disclosure

- Depreciation charge for right-of-use assets by class of underlying asset
- Interest expense on lease liabilities
- The expense relating to short-term leases. Need not include the expense relating to leases with a lease term of one month or less
- The expense relating to leases of low- value assets. Does not include the expense relating to short-term leases of low-value assets
- The expense relating to variable lease payments not included in the measurement of lease liabilities
- Revenue from subleasing right-of-use assets
- Total cash outflow for leases
- Additions to right-of-use assets
- Gains or losses arising from sale and leaseback transactions
- The carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset

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Lessor Accounting: Classifying Leases

A lessor classifies each of its leases as either an operating lease or a finance lease.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Lessor Accounting: Finance Lease Indicators

Situations that would normally lead to a lease being classified as a finance lease

- Lease transfers ownership of the underlying asset to the lessee
- Lessee has the option to purchase the underlying asset at a price sufficiently lower than the fair value that purchase is reasonably certain
- Lease term is for the major part of the economic life of the underlying asset
- Present value of the lease payments amounts to at least substantially all of the fair value of the leased asset
- Underlying asset is of such a specialized nature that only the lessee can use it without major modifications

Lessor Accounting: Other Finance Lease Indicators

Other indicators that individually or in combination could also lead to a lease being classified as a finance lease are:

If cancellation are borne by the lessee

→

Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example in the form of a rent rebate equaling most of the sales proceeds at the end of the lease)

→

The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent

Lessor Accounting: Recognition of Finance Leases

Recognition

- At the commencement date, a lessor recognizes assets held under a finance lease in its statement of financial position.
- Assets are presented as a receivable at an amount equal to the net investment in the lease.
- The underlying asset is derecognized.

Definitions

- **Net Investment in the Lease**: The gross investment in the lease discounted at the interest rate implicit in the lease.
- **Gross Investment in the Lease**: The sum of:
  - the lease payments receivable by a lessor under a finance lease; and
  - any unguaranteed residual value accruing to the lessor.

Lessor Accounting: Initial Measurement of Finance Leases

Interest Rate Implicit in the Lease

- The lessor uses the interest rate implicit in the lease to measure the net investment in the lease.
- Sublease Exception: If the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease.

Initial Direct Costs

- Initial direct costs are included in the initial measurement of the net investment in the lease. These costs reduce the amount of revenue recognized over the lease term.
- The interest rate implicit in the lease includes initial direct costs automatically in the net investment; there is no need to add them separately.

Lessor Accounting: Lease Payments Included in Net Investment

Lease Payments (Not Received at Commencement Date)

- Any residual value guarantees provided to the lessor by the lessee, a party related to the lessee, or a third party.
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- Fixed payments less any lease incentives payable.
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lessor Accounting: Subsequent Measurement of Finance Leases

Lessor recognize finance revenue over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment in the lease.

→

Allocate lease payments finance revenue over the lease term on a systematic and rational basis by applying the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

→

Apply the derecognition and impairment requirements in IPSAS 41, *Financial Instruments*, to the net investment in the lease (receivable).

Lessor Accounting: Modifications of Finance Leases

Separate Lease Treatment

Account for a modification to a finance lease as a separate lease if both:

a. The modification increases the scope of the lease by adding the right to use one or more underlying assets; *and*

b. The consideration for the lease increases by an amount that reflects the stand-alone price for the increase in scope and any appropriate adjustments.

Modification Not a Separate Lease

Account for a modification to a finance lease that is not accounted for as a separate lease as follows:

a. If the lease would have been an operating lease had the modification been in effect at inception:

- Account for the lease modification as a new lease from the modification date.
- Measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification

b. Otherwise: The lessor shall apply the requirements of IPSAS 41.

Lessor Accounting: Recognition and Measurement of Operating Leases

Revenue Recognition

- Recognize lease payments as revenue on a straight-line basis (or another systematic basis)

Initial Direct Costs

- Add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset.
- Recognize these costs as an expense over the lease term on the same basis as the lease revenue.

Other Costs

- Recognize costs, including depreciation, incurred in earning the lease revenue as an expense.

Lessor Accounting: Modifications of Operating Leases

Account for the modification as a new lease from the effective date of the modification.

Carry forward any prepaid or accrued lease payments from the original lease and include them in the lease payments for the new lease.

Lessor Accounting: Presentation and Disclosure

Underlying Assets Subject to Operating Leases

- Present in the statement of financial position according to the nature of the underlying asset (e.g., property, equipment).

Disclosures for Reporting Period

- Finance Leases:
  - Selling surplus or deficit
  - Finance revenue on the net investment in the lease
  - Revenue from variable lease payments (excluded from net investment)
- Operating Leases:
  - Lease revenue, with separate disclosure of variable lease payments not dependent on an index/rate

Sale and Leaseback Transactions

Is the transfer of the asset a sale?

		Recognition	Measurement
Yes	Seller- lessee	Right-of-use asset	Proportion of the previous carrying amount of the asset that relates to the right of use
		Lease liability	According to IPSAS 43
	Buyer- lessor	Underlying asset	According to the applicable IPSAS
		Lease	According to IPSAS 43
No	Seller- lessee	Financial liability	According to IPSAS 41
	Buyer- lessor	Financial asset	

IPSAS® 32: Service Concession Arrangements

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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

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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

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Grantor Recognizes Asset When

Grantor controls:
(a) Services provided by operator, to whom provided and price
(b) A significant residual interest in asset at end of arrangement

An Asset provided by operator upgrade of existing asset

Initially measured at fair value

Existing asset of grantor

Reclassified service concession asset

Accounted for in accordance with IPSAS 17 or IPSAS 31

Recognition of Liabilities

Measured initially at the same amount as service concession asset

Unconditional obligation to pay specified and determinable amount

Financial Liability Model – treated as financial liability

Payments allocated to liability, finance charges and for services

Operator granted right to earn revenue from third-party users

Grant of Right to the Operator Model – unearned revenue liability

Revenue earned reduces liability

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

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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

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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

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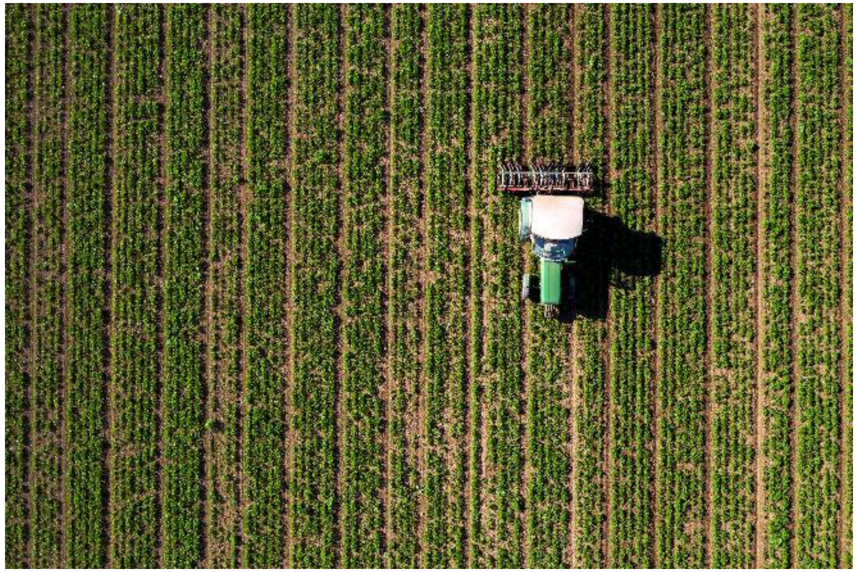
Scope

- 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



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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

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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

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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

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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.

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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

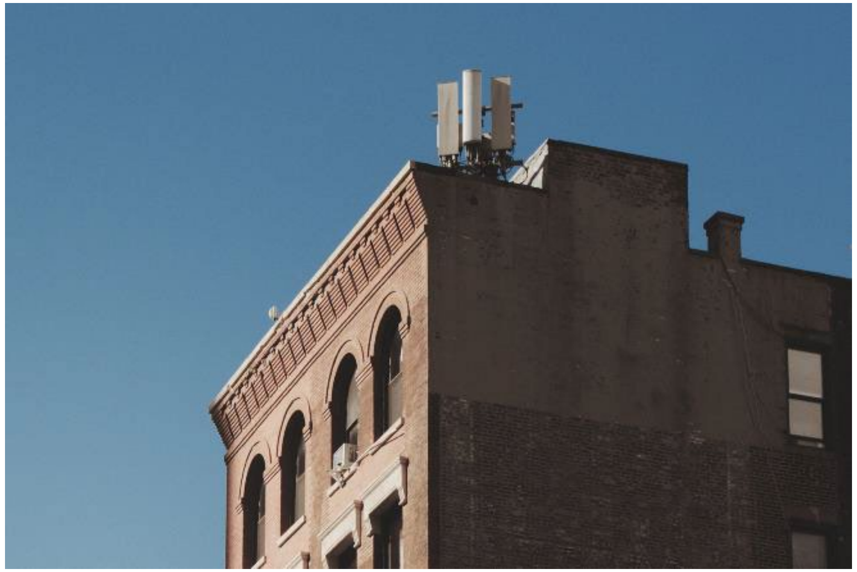
Investment property shall be recognized as an asset when, and only when:

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

Resources

Additional Information

- IPSASB's Website
- IPSASB's Handbook (digital version)
- IPSASB's Handbook (PDF version)
- PSAB's International Activities page

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Thank You!