



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
4

Date: March 11, 2010
Memo to: Members of the IPSASB
From: Jing Wang
Subject: Improvements to IPSASs

Objective of this Session

- To review and approve the proposed changes to certain IPSASs following review and evaluation of “Improvements to IFRSs” (issued in April 2009 by the IASB); and
- To review and approve the general improvements to existing IPSASs.

Agenda Material

- 4.1 Proposed General Improvements to IPSASs
- 4.2 Exposure Draft (ED) 44, “Improvements to IPSASs”
- 4.3 Improvements to IFRSs (issued in April 2009 by the IASB)

Background

1. The IPSASB identified “Annual Improvements” as a convergence project with International Financial Reporting Standards (IFRSs) at its Paris meeting held in March 2009. The ED of the first year’s “Annual Improvements,” ED 42, “Improvements to IPSASs” was published in May 2009. The finalized document was issued in January 2010.

Improvements as a Result of the IASB’s Improvements Project

2. The proposed approach to this year’s Improvements project is to have two separate parts. While dealing with the relevant amendments to IPSASs that are drawn from the IASB document, “Improvements to IFRSs” issued in April 2009, Staff also considered other improvements that have been identified to existing IPSASs.
3. Part I of ED 44 proposes improvements to four IPSASs in order to converge with amendments to IFRSs, as follows:
 - IPSAS 1, “Presentation of Financial Statements”
 - IPSAS 2, “Cash Flow Statements”
 - IPSAS 9, “Revenue from Exchange Transactions”

- IPSAS 13, “Leases”

The reasons for excluding or including amendments in “Improvements to IFRSs” are shown in the table below IN2 in Agenda Paper 4.2.

Scope of Project

4. In the past few Board meetings, Members noted that the scope of the IPSASB’s Annual Improvements project is narrow and only addressed improvements derived from the IASB’s Annual Improvements project. A tentative decision was made that future projects should adopt a broader approach that would identify improvements other than those that arise from the IASB’s Annual Improvements project. Thus, Staff has included other improvements as Part II of this year’s Annual Improvements project.
5. Members and others have identified improvements that could be made to existing IPSASs. These are set out in Part II of ED 44, including amendments to the following four IPSASs:
 - IPSAS 9, “Revenue from Exchange Transactions”
 - IPSAS 12, “Inventories”
 - IPSAS 20, “Related Party Disclosures”
 - IPSAS 21, “Impairment of Non-Cash-Generating Assets”

Agenda Paper 4.1 lists the improvements which have been identified and proposed actions. Additionally, editorial changes to make terminology consistent are listed at the end of this table.

Point to Note

Amendments to Financial Instruments Standards

6. “Improvements to IFRSs” includes several changes to IAS 39 “Financial Instruments: Recognition and Measurement” as well as two related IFRICs, i.e., IFRIC 9, “Reassessment of Embedded Derivatives” and IFRIC 16, “Hedges of a Net Investment in a Foreign Operation.” Some of these changes have been included in IPSAS 29, “Financial Instruments: Recognition and Measurement” which was issued in January 2010. See the table below IN2 in Agenda Paper 4.2 for details of which changes have been included in IPSAS 29 and those that have not.
7. Staff considered whether the IAS 39, IFRIC 9 and IFRIC 16 improvements that have not been included in the existing IPSASs should be dealt with in this year’s Annual Improvements project or as part of the Financial Instruments Amendments project arising from the phased issue of chapters of IFRS 9 and other IASB changes to its financial instruments standards. The same issue is considered in more detail in Agenda Item 6, “IAS 39 Amendments.” The approach is therefore dependent on decisions made on Agenda Item 6.

PROPOSED GENERAL IMPROVEMENTS

Purpose:

This paper presents items that could be included in Part II of the Annual Improvements project.

#	IPSAS	Proposals for Amendment	Subject of Amendment and Suggested Action
Other Changes			
1	IPSAS 9	Paragraph 10 wording could be aligned with wording in IAS 18.	<p>Editorial changes.</p> <p>10. This Standard does not deal with revenues <u>arising from</u>:</p> <p>(a) Addressed in other International Public Sector Accounting Standards, including:</p> <p>(ai) Lease agreements (see IPSAS 13, “Leases”);</p> <p>(bi) Dividends <u>or similar distributions</u> arising from investments which are accounted for under the equity method (see IPSAS 7, “Accounting for Investments in Associates”); and</p> <p>(cii) Gains from the sale of property, plant and equipment (which are dealt with in IPSAS 17, “Property, Plant and Equipment”),</p> <p>(db) <u>Arising from insurance</u> Insurance contracts of insurance entities;</p> <p>(ce) <u>Arising from changes</u> <u>Changes</u> in the fair value of financial assets and financial liabilities or their disposal (guidance on accounting for financial instruments can be found in international or national accounting standards addressing the recognition and measurement of financial instruments);</p> <p>(fd) <u>Arising from changes</u> <u>Changes</u> in the value of other current assets;</p> <p>(ge) <u>Arising from natural</u> <u>Natural</u> increases in herds, and agricultural and forest products; and</p> <p>(hf) <u>Arising from the</u> <u>The</u> extraction of mineral ores.</p>

#	IPSAS	Proposals for Amendment	Subject of Amendment and Suggested Action
2	IPSAS 12	Paragraphs 16 and 17 are both exceptions to the requirements in paragraph 15. However the wording of paragraph 15 does not reflect this.	<p>Exceptions to the measurement of inventories at the lower of cost and net realizable value.</p> <p>15. Inventories shall be measured at the lower of cost and net realizable value, except where paragraph 16 <u>or 17</u> applies.</p>
3	IPSAS 20	Paragraph 24 refers to extraordinary items. When IPSAS 3 was revised in December 2006, disclosure requirements on the presentation of items in the statement of financial performance were deleted and included in IPSAS 1 (which was revised at the same time). Therefore, the sentence referring to IPSAS 3 could be deleted in its entirety.	<p>Disclosure requirements referring to IPSAS 3.</p> <p>24. Some IPSASs also require disclosure of transactions with related parties. For example, IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates and other related parties. IPSAS 6, “Consolidated and Separate Financial Statements” and IPSAS 7 require disclosure of a list of significant controlled entities and associates. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” requires disclosure of extraordinary items and items of revenue and expense within surplus or deficit from ordinary activities that are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period.</p>
4	IPSAS 21	Paragraph 11 should be updated to refer to IPSAS 26 rather than IAS 36.	<p>Reference to IPSAS 26.</p> <p>11. Consistent with the requirements of paragraph 4 above, items of property, plant and equipment that are classified as cash-generating assets including those that are carried at revalued amounts under the allowed alternative treatment in IPSAS 17, are dealt with under IAS 36 <u>IPSAS 26</u>.</p>
5	IPSAS 21	Paragraph 20 incorrectly refers to paragraph 72 for a disclosure requirement to disclose the criteria used in distinguishing cash-generating assets from non-cash-generating assets. This disclosure requirement has been omitted from IPSAS 21 and should be included.	<p>Required disclosure of the criteria used in distinguishing cash-generating assets from non-cash-generating assets.</p> <p>20. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable rather than IPSAS 26. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets and with the related guidance in paragraphs 16–20. Paragraph 72–73A requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of most public sector</p>

#	IPSAS	Proposals for Amendment	Subject of Amendment and Suggested Action
			<p>entities, other than GBEs, the presumption is that assets are non-cash-generating and, therefore, IPSAS 21 will apply.</p> <p>73A. An entity shall disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.</p>
Terminology Changes			
1	-	The term “dividends” has been amended to “dividends or similar distributions” inconsistently throughout the Handbook.	<p>Consistency of term “dividends or similar distributions.”</p> <p>Paragraphs that need to be amended:</p> <p>IPSAS 1, paragraph 82</p> <p>IPSAS 2, the heading “Interest and Dividends” and paragraphs 40, 42, 43, and 47</p> <p>IPSAS 6, paragraph 57</p> <p>IPSAS 7, paragraphs 12 and 34</p> <p>IPSAS 9, the heading “Interest, Royalties and Dividends” in both the Standard and Appendix sections, paragraphs 1, 9, 10, 33, 34, 36, 39, and sub-paragraph (c) of the Appendix</p> <p>IPSAS 13, paragraph 40</p> <p>IPSAS 25, paragraph 10</p>
2	-	The term “net surplus or deficit” has been amended to “surplus or deficit” inconsistently throughout the Handbook.	<p>Consistency of term “surplus or deficit.”</p> <p>Paragraphs that need to be amended:</p> <p>IPSAS 2, paragraphs 22, 27, 30, and 42</p> <p>IPSAS 3, the heading “Net Surplus or Deficit for the Period” in the Introduction section</p> <p>IPSAS 12, paragraph 33</p> <p>IPSAS 26, paragraph 27</p>
3	-	The term “Surplus or Deficit on Net Monetary Position” incorrectly refers to “surplus or deficit” instead of a “gain or loss” on the net monetary position.	<p>Replacement of term “Surplus or Deficit on Net Monetary Position.”</p> <p>Paragraphs that need to be amended:</p> <p>IPSAS 10, the heading “surplus or deficit on the net monetary position” and paragraphs 28 and 29</p>

Exposure Draft 44

XX 2010

Comments are requested by XX XX, 2010

*Proposed International Public Sector Accounting
Standard*

Improvements to IPSASs

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, ED 44, “Improvements to IPSASs,” for publication in XX 2010. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by XX, 2010.**

Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the “Submit a Comment” link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments be submitted electronically, e-mail may continue to be sent to edcomments@ifac.org and stepheniefox@ifac.org. Comments can also be faxed to the attention of the IPASB Technical Director at +1 (416) 204-3412, or mailed to:

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>

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(ED 44)—IMPROVEMENTS TO IPSASs

Acknowledgment

This Exposure Draft of Improvements to International Public Sector Accounting Standards (IPSASs) contains amendments that are drawn from “Improvements to IFRSs” published by the International Accounting Standards Board (IASB) in April 2009. Extracts from “Improvements to IFRSs” are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

The approved text of the IFRSs is that published by the IASB in the English language, and copies may be obtained directly from IASB Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

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Objective

The objective of Part I of this Exposure Draft (ED) is to propose improvements to four IPSASs in order to converge with amendments to International Financial Reporting Standards in the IASB’s, “Improvements to IFRSs” (issued in April 2009). Part II of this ED includes improvements to other IPSASs that relate to inconsistent references to standards, terminology and structure resulting from IPSASB’s ongoing review of existing IPSASs.

Request for Comments

The IPSASB would welcome comments on all the changes proposed in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

(ED 44)—IMPROVEMENTS TO IPSASs

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Introduction

- IN1. This document sets out amendments to IPSASs and the related Bases for Conclusions, Comparisons with IFRSs/IASs and guidance.
- IN2. Part I of this document contains amendments that are drawn from the IASB document, “Improvements to IFRS” issued in April 2009. The IASB’s rationale for its amendments is documented in the related Bases for Conclusions in that IASB document. The following table shows how amendments in “Improvements to IFRSs” have been addressed and the reason for their inclusion or exclusion in IPSASs.

IFRS	Subject of amendment	Relationship with IPSASs/ED
IFRS 2 <i>Share-based Payment</i>	Scope of IFRS 2 and revised IFRS 3	No equivalent IPSAS, because share-based payment is uncommon in public sector entities.
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	No equivalent IPSAS. The IPSASB considered the application of IFRS 5 when completing its “Strategy and Operational Plan 2007-2009.” The IPSASB agreed that the applicability of this standard will be considered later. The IPSASB’s 2010 Work Plan is under review at its April 2010 meeting.
IFRS 8 <i>Operating Segments</i>	Disclosure of information about segment assets	N/A. IPSAS 18, “Segment Reporting” is drawn primarily from IAS 14, “Segment Reporting,” which was replaced by IFRS 8 in 2006. Since the requirement of disclosure of information about segment assets in IFRS 8 is different from that in IAS 14, the amendment to IFRS 8 is not applicable to paragraph 53 of IPSAS 18. The IPSASB will consider this amendment when it considers any update to IPSAS 18.
IAS 1 <i>Presentation of Financial Statements</i>	Current/non-current classification of convertible instruments	Included in Amendment to IPSAS 1, “Presentation of Financial Statements”, as part of ED 44.
IAS 7 <i>Statement of Cash Flows</i>	Classification of expenditures on unrecognized assets	Included in Amendment to IPSAS 2, “Cash Flow Statements”, as part of ED 44.
IAS 17 <i>Leases</i>	Classification of leases of land and buildings	Included in Amendment to IPSAS 13, “Leases”, as part of ED 44.
IAS 18 <i>Revenue</i>	Determining whether an entity is acting as a principal or as an agent	Included in Amendment to Appendix to IPSAS 9, “Revenue from Exchange Transactions”, as part of ED 44.
IAS 36 <i>Impairment of Assets</i>	Unit of accounting for goodwill impairment test	Will be included in the proposed IPSAS 32, “Entity Combinations.”
IAS 38 <i>Intangible</i>	Additional consequential	Will be included in the proposed IPSAS 32,

<i>Assets</i>	amendments arising from revised IFRS 3	“Entity Combinations.”
	Measuring the fair value of an intangible asset acquired in a business combination	
<i>IAS 39 Financial Instruments: Recognition and Measurement</i>	Treating loan prepayment penalties as closely related embedded derivatives	Will be included in FI amendments project.
	Scope exemption for business combination contracts	Included in IPSAS 29, “Financial Instruments: Recognition and Measurement.”
	Cash flow hedge accounting	
<i>IFRIC 9 Reassessment of Embedded Derivatives</i>	Scope of IFRIC 9 and revised IFRS 3	Will be included in FI amendments project.
<i>IFRIC 16 Hedges of a Net Investment in a Foreign Operation</i>	Amendment to the restriction on the entity that can hold hedging instruments	Will be included in FI amendments project.

- IN3. Part II contains amendments that relate to inconsistent references to standards, terminology and structure resulting from IPSASB’s general review of existing IPSASs.
- IN4. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IPSASs.
- IN5. The effective date of each amendment is included in the IPSAS affected.

IPSASs addressed

- IN6. The following table shows the topics addressed by these amendments.

IPSAS	Subject of Amendment
Part I	
IPSAS 1, “Presentation of Financial Statements”	Current/non-current classification of convertible instruments
IPSAS 2, “Cash Flow Statements”	Classification of expenditures on unrecognized assets
IPSAS 9, “Revenue from Exchange Transactions”	Determining whether an entity is acting as a principal or as an agent
IPSAS 13, “Leases”	Classification of leases of land and buildings
Part II	
IPSAS 9, “Revenue from Exchange Transactions”	Editorial changes
IPSAS 12, “Inventories”	Exceptions to the measurement of inventories at the lower of cost and net realizable value
IPSAS 20, “Related Party Disclosures”	Disclosure requirements referring to IPSAS 3
IPSAS 21, “Impairment of Non-Cash Generating Assets”	Reference to IPSAS 26
	Required disclosure of the criteria used in distinguishing cash-generating assets from non-cash-generating assets
Terminology Changes	Consistency of terminology

PART I

Amendments to International Public Sector Accounting Standard 1, “Presentation of Financial Statements”

Paragraph 80 and Comparison with IAS 1 are amended (new text is underlined and deleted text is struck through). Paragraphs 153B, BC12, and an associated heading are added.

Structure and Content

Statement of Financial Position

Current Liabilities

80. A liability shall be classified as current when it satisfies any of the following criteria:
- (a) It is expected to be settled in the entity’s normal operating cycle;
 - (b) It is held primarily for the purpose of being traded;
 - (c) It is due to be settled within twelve months after the reporting date; or
 - (d) ~~The entity~~It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date (see paragraph 84). Terms of a liability that could at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

Effective Date

153B. Paragraph 80 was amended by “Improvements to IPSASs” issued in Month 20XX. An entity shall apply that amendment for annual financial statements covering periods beginning on or after Month XX, 20XX. Earlier application is encouraged. If an entity applies the amendment for a period beginning before Month XX, 20XX, it shall disclose that fact.

Basis for Conclusions

BC1–BC11

Revision of IPSAS 1 as a result of the IASB’s Improvements to IFRSs issued in 2009

BC12. The IPSASB reviewed the revisions to IAS 1 included in the “Improvements to IFRSs” issued by the IASB in April 2009 and generally concurred with the IASB’s reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Comparison with IAS 1

IPSAS 1 is drawn primarily from IAS 1 (2003) and includes amendments made to IAS 1 as part of the “Improvements to IFRSs” issued in May 2008 and April 2009 respectively. ...

Amendments to International Public Sector Accounting Standard 2, “Cash Flow Statements”

Paragraph 25 and Comparison with IAS 7 are amended (new text is underlined and deleted text is struck through). Paragraph 63B and a Basis for Conclusions section are added.

Presentation of a Cash Flow Statement

Investing Activities

25. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the entity’s future service delivery. Only cash outflows that result in a recognized asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) ...

Effective Date

63B. Paragraph 25 was amended by “Improvements to IPSASs” issued in Month 20XX. An entity shall apply that amendment for annual financial statements covering periods beginning on or after Month XX, 20XX. Earlier application is encouraged. If an entity applies the amendment for a period beginning before Month XX, 20XX, it shall disclose that fact.

Basis for Conclusions

Revision of IPSAS 2 as a result of the IASB’s Improvements to IFRSs issued in 2009

BC1. The IPSASB reviewed the revisions to IAS 7 included in the “Improvements to IFRSs” issued by the IASB in April 2009 and generally concurred with the IASB’s reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Comparison with IAS 7

IPSAS 2, “Cash Flow Statements,” is drawn primarily from IAS 7, “Cash Flow Statements,” and includes an amendment made to IAS 7 as part of the “Improvements to IFRSs” issued in April 2009. ...

Amendment to International Public Sector Accounting Standard 9, “Revenue from Exchange Transactions”

After example 25 of Appendix to IPSAS 9, a heading and example 26 are added.

Recognition and Measurement

26. Determining whether an entity is acting as a principal or as an agent (2010 amendment).

Paragraph 12 states that “in a custodial or agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets/equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.” Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as a principal include:

- (a) The entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- (b) The entity has inventory risk before or after the customer order, during shipping or on return;
- (c) The entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
- (d) The entity bears the customer’s credit risk for the amount receivable from the customer.

An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

Amendment to International Public Sector Accounting Standard 13, “Leases”

Paragraphs 19 and 20 are deleted and Comparison with IAS 17 are amended (new text is underlined and deleted text is struck through). Paragraphs 20A, 84A, 85A, BC7, and associated headings are added.

Classification of Leases

19. ~~[Deleted] Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents pre paid lease payments that are amortized over the lease term in accordance with the pattern of benefits provided.~~
20. ~~[Deleted] The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, whether analyzed as one lease or as two leases, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 19. The buildings element is classified as a finance or operating lease in accordance with paragraphs 12-18.~~
- 20A. 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 in accordance with paragraphs 12-18. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

Transitional Provisions

- 84A. An entity shall reassess the classification of land elements of unexpired leases at the date it adopts the amendments referred to in paragraph 85A on the basis of information existing at the inception of those leases. It shall recognise a lease newly classified as a finance lease retrospectively in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.” However, if an entity does not have the information necessary to apply the amendments retrospectively, it shall:
- (a) Apply the amendments to those leases on the basis of the facts and circumstances existing on the date it adopts the amendments; and

- (b) **Recognize the asset and liability related to a land lease newly classified as a finance lease at their fair values on that date; any difference between those fair values is recognized in accumulated surplus or deficit.**

Effective Date

85A. Paragraphs 19 and 20 were deleted, and paragraphs 20A and 84A were added by “Improvements to IPSASs” issued in Month 20XX. An entity shall apply those amendments for annual financial statements covering periods beginning on or after Month XX, 20XX. Earlier application is encouraged. If an entity applies the amendments for a period beginning before Month XX, 20XX, it shall disclose that fact.

Basis for Conclusions

Revision of IPSAS 13 as a result of the IASB’s General Improvements Project 2003

Background

BC1–BC6

Revision of IPSAS 13 as a result of the IASB’s Improvements to IFRSs issued in 2009

BC7. The IPSASB reviewed the revisions to IAS 17 included in the “Improvements to IFRSs” issued by the IASB in April 2009 and generally concurred with the IASB’s reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Comparison with IAS 17

IPSAS 13, “Leases” is drawn primarily from IAS 17, (revised 2003), “Leases:” and includes amendments made to IAS 17 as part of the “Improvements to IFRSs” issued in April 2009. ...

PART II

Amendment to International Public Sector Accounting Standard 9, “Revenue from Exchange Transactions”

Paragraph 10 is amended (new text is underlined and deleted text is struck through).

Scope

10. This Standard does not deal with revenues arising from:
- ~~(a) — Addressed in other International Public Sector Accounting Standards, including:~~
 - ~~(a)~~ Lease agreements (see IPSAS 13, “Leases”);
 - ~~(b)~~ Dividends or similar distributions arising from investments which are accounted for under the equity method (see IPSAS 7, “Accounting for Investments in Associates”); ~~and~~
 - ~~(c)~~ Gains from the sale of property, plant and equipment (which are dealt with in IPSAS 17, “Property, Plant and Equipment”);₂
 - ~~(d)~~ ~~Arising from insurance~~ Insurance contracts of insurance entities;
 - ~~(e)~~ ~~Arising from changes~~ Changes in the fair value of financial assets and financial liabilities or their disposal (guidance on accounting for financial instruments can be found in international or national accounting standards addressing the recognition and measurement of financial instruments);
 - ~~(f)~~ ~~Arising from changes~~ Changes in the value of other current assets;
 - ~~(g)~~ ~~Arising from natural~~ Natural increases in herds, and agricultural and forest products; and
 - ~~(h)~~ ~~Arising from the~~ The extraction of mineral ores.

Amendment to International Public Sector Accounting Standard 12, “Inventories”

Paragraph 15 is amended (new text is underlined).

Measurement of Inventories

15. Inventories shall be measured at the lower of cost and net realizable value, except where paragraph 16 or paragraph 17 applies.

Amendment to International Public Sector Accounting Standard 20, “Related Party Disclosures”

Paragraph 24 is amended (deleted text is struck through).

Disclosure

24. Some IPSASs also require disclosure of transactions with related parties. For example, IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates and other related parties. IPSAS 6, “Consolidated and Separate Financial Statements” and IPSAS 7 require disclosure of a list of significant controlled entities and associates. ~~IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” requires disclosure of extraordinary items and items of revenue and expense within surplus or deficit from ordinary activities that are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period.~~

Amendment to International Public Sector Accounting Standard 21, “Impairment of Non-Cash Generating Assets”

Paragraphs 11 and 20 are amended (new text is underlined and deleted text is struck through). Paragraph 73A is added.

Scope

11. Consistent with the requirements of paragraph 4 above, items of property, plant and equipment that are classified as cash-generating assets including those that are carried at revalued amounts under the allowed alternative treatment in IPSAS 17, are dealt with under ~~IAS 36~~ IPSAS 26.

Definitions

Cash-Generating Assets

20. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable rather than IPSAS 26. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets and with the related guidance in paragraphs 16–20. Paragraph ~~72~~ 73A requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of most public sector entities, other than GBEs, the presumption is that assets are non-cash-generating and, therefore, IPSAS 21 will apply.

Disclosure

- 73A. An entity shall disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.

Terminology Changes

IPSAS 1, “Presentation of Financial Statements”

Paragraph 82 is amended as follows:

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities classified as held for trading in accordance with IPSAS 29, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity’s normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 85 and 86.

IPSAS 2, “Cash Flow Statements”

Paragraph 22 is amended as follows:

22. ...
- Some transactions, such as the sale of an item of plant, may give rise to a gain or loss which is included in the determination of ~~net~~-surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.

Paragraph 27 is amended as follows:

27. **An entity should report cash flows from operating activities using either:**
- (a) **The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**
 - (b) **The indirect method, whereby ~~net~~-surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.**

Paragraph 30 is amended as follows:

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting ~~net~~-surplus or deficit from ordinary activities for the effects of:
- (a) ...

Paragraph 40 is amended as follows:

Interest and Dividends or similar distributions

40. Cash flows from interest and dividends or similar distributions received and paid should each be disclosed separately. Each should be classified in a consistent manner from period to period as either operating, investing or financing activities.

Paragraph 42 is amended as follows:

42. Interest paid and interest and dividends or similar distributions received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends or similar distributions received may be classified as operating cash flows because they enter into the determination of ~~net~~ surplus or deficit. Alternatively, interest paid and interest and dividends or similar distributions received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Paragraph 43 is amended as follows:

43. Dividends or similar distributions paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends or similar distributions paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to make these payments out of operating cash flows.

Paragraph 47 is amended as follows:

47. When accounting for an investment in an associate or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends or similar distributions and advances.

IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”

The heading before Paragraph IN11 is amended as follows:

~~Net~~ Surplus or Deficit for the Period

IN11. The Standard does not include...

IPSAS 6, “Consolidated and Separate Financial Statements”

Paragraph 57 is amended as follows:

57. If a controlled entity has outstanding cumulative preference shares that are held by minority interests and classified as net assets/equity, the controlling entity computes its share of surpluses or deficits after adjusting for the dividends or similar distributions on such shares, whether or not dividends or similar distributions have been declared.

IPSAS 7, “Investments in Associates”

Paragraph 12 is amended as follows:

12. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
- (a) Representation on the board of directors or equivalent governing body of the investee;
 - (b) Participation in policy-making processes, including participation in decisions about dividends or similar ~~other~~ distributions;

- (c) Material transactions between the investor and the investee;
- (d) Interchange of managerial personnel; or
- (e) Provision of essential technical information.

Paragraph 34 is amended as follows:

34. If an associate has outstanding cumulative preferred shares that are held by parties other than the investor and classified as net assets/equity, the investor computes its share of surpluses or deficits after adjusting for the dividends or similar distributions on such shares, whether or not the dividends or similar distributions have been declared.

IPSAS 9, “Revenue from Exchange Transactions”

Paragraph 1 is amended as follows:

1. **An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for revenue arising from the following exchange transactions and events:**
- (a) **The rendering of services;**
 - (b) **The sale of goods; and**
 - (c) **The use by others of entity assets yielding interest, royalties and dividends or similar distributions.**

Paragraph 9 is amended as follows:

9. The use by others of entity assets gives rise to revenue in the form of:
- (a) Interest—charges for the use of cash or cash equivalents or amounts due to the entity;
 - (b) Royalties—charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and
 - (c) Dividends or similar equivalents—distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

Paragraph 33 is amended as follows:

Interest, Royalties and Dividends or similar distributions

33. **Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions should be recognized using the accounting treatments set out in paragraph 34 when:**
- (a) **It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and**
 - (b) **The amount of the revenue can be measured reliably.**

Paragraph 34 is amended as follows:

34. **Revenue should be recognized using the following accounting treatments:**

- (a) **Interest should be recognized on a time proportion basis that takes into account the effective yield on the asset;**
- (b) **Royalties should be recognized as they are earned in accordance with the substance of the relevant agreement; and**
- (c) **Dividends or similar distributions ~~their equivalents~~ should be recognized when the shareholder's or the entity's right to receive payment is established.**

Paragraph 36 is amended as follows:

36. When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognized as revenue. When dividends or similar distributions on equity securities are declared from pre-acquisition net surplus, those dividends or similar distributions are deducted from the cost of the securities. If it is difficult to make such an allocation except on an arbitrary basis, dividends or similar distributions are recognized as revenue unless they clearly represent a recovery of part of the cost of the equity securities.

Paragraph 39 is amended as follows:

39. **An entity should disclose:**
- (a) **The accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;**
 - (b) **The amount of each significant category of revenue recognized during the period including revenue arising from:**
 - (i) **The rendering of services;**
 - (ii) **The sale of goods;**
 - (iii) **Interest;**
 - (iv) **Royalties; and**
 - (v) **Dividends or similar distributions ~~their equivalents~~; and**
 - (c) **The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.**

The sub-paragraph (c) of the Appendix is amended as follows:

Appendix

Public sector entities derive revenues from exchange or non-exchange transactions. This Standard deals only with revenue arising from exchange transactions. Revenue from exchange transactions is derived from:

- (a) Sale of goods or provision of services to third parties;
- (b) Sale of goods or provision of services to other government agencies; and

- (c) The use by others of entity assets yielding interest, royalties and dividends or similar distributions.

The heading before paragraph 25 of the Appendix is amended as follows:

Interest, Royalties and Dividends or similar distributions

25. *License fees and royalties*

...

IPSAS 10, “Financial Reporting in Hyperinflationary Economies”

Paragraph 28 is amended as follows:

Surplus or Deficit Gain or Loss on Net Monetary Position

28. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. This ~~surplus or deficit~~ gain or loss on the net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, accumulated ~~surpluses or deficits~~ gains or losses and items in the statement of financial performance and the adjustment of index linked assets and liabilities. The ~~surplus or deficit~~ gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.

Paragraph 29 is amended as follows:

29. The ~~surplus or deficit~~ gain or loss on the net monetary position is included in the statement of financial performance. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 16 is offset against the ~~surplus or deficit~~ gain or loss on net monetary position. Other items in the statement of financial performance, such as interest revenue and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the ~~surplus or deficit~~ gain or loss on net monetary position in the statement of financial performance.

IPSAS 12, “Inventories”

Paragraph 33 is amended as follows:

33. Specific identification of costs means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory which are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the ~~net surplus or deficit~~ for the period.

IPSAS 13, “Leases”

Paragraph 33 is amended as follows:

33. Specific identification of costs means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory which are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the ~~net~~ surplus or deficit for the period.

Paragraph 40 is amended as follows:

40. Lessees shall disclose the following for finance leases:

...

- (f) **A general description of the lessee’s material leasing arrangements including, but not limited to, the following:**
- (i) **The basis on which contingent rent payable is determined;**
 - (ii) **The existence and terms of renewal or purchase options and escalation clauses; and**
 - (iii) **Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends or similar distributions, additional debt and further leasing.**

IPSAS 25, “Employee Benefits”

Paragraph 10 is amended as follows:

10. ...

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

IPSAS 26, “Impairment of Cash-Generating Assets”

Paragraph 27 is amended as follows:

27. Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:
- (a) Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
 - (b) Actual net cash flows or ~~net~~ surplus or deficit flowing from the asset that are significantly worse than those budgeted;
 - (c) A significant decline in budgeted net cash flows or surplus or a significant increase

in budgeted loss, flowing from the asset; or

- (d) Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.



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