

## TRANSITIONAL PROVISIONS AND EFFECTIVE DATE

### Objectives

1. To consider the approach to transitional provisions and effective dates for IPSASs.

### Background

2. At its December 2009 meeting, the IPSASB approved four final IPSASs (converged with IFRS), as well as Annual Improvements. In addition, prior to that meeting, another IPSAS was approved. The approach taken to transitional provisions and effective dates varied among the standards approved.
3. At that meeting, as part of the discussion of Annual Improvements, it was suggested that “the staff should bring a paper on the approach to effective dates and transitional provisions to a future meeting of the IPSASB.” This paper outlines that approach for the IPSASB’s consideration.

### Transition

#### Background

4. The Preface to International Public Sector Accounting Standards states:
  22. The IPSASB also attempts to facilitate compliance with accrual based IPSASs through the use of transitional provisions in certain standards. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of a specific accrual based IPSAS or provide relief from certain requirements when initially applying an IPSAS. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSASs. At this point, the entity shall apply all the accrual based IPSASs and could choose to apply any transitional provisions in an individual accrual based IPSAS.
  23. Having decided to adopt accrual accounting in accordance with IPSASs, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the entity shall report in full in accordance with all accrual based IPSASs.
5. Appendix 1 to this paper provides a summary of the transitional provisions in IPSASs 1–31. Note that approximately one-half of the IPSASs do not contain transitional provisions (IPSASs 2, 3, 7, 9, 10, 11, 12, 14, 18, 20, 22, 24, 25, 26, and 30).
6. Where a standard does not contain transitional provisions, IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” applies. See Appendix 2 to this paper for a summary of the pertinent provisions of IPSAS 3.
7. IPSAS 3 requires retrospective adjustments to reflect changes in accounting policies, to the extent practicable, except when the transitional provisions in another IPSAS require otherwise. Retrospective adjustments and retrospective restatements are made to the balance of accumulated surpluses or deficits, except when an IPSAS requires retrospective adjustment of another component of net assets/equity.

### First-time Adoption

8. An entity adopting IPSASs for the first time may be:
  - (a) An entity that adopts accrual accounting for the first time and applies IPSASs to present its general purpose financial statements;
  - (b) An entity that had previously presented its general purpose financial statements on an accrual or modified accrual basis consistent with its general national accepted accounting principles, but has decided to adopt IPSASs; or
  - (c) A newly created entity that adopts IPSASs for the first time.
9. Where a standard contains transitional provisions, they may deal with either or both of:
  - (a) First-time adoption of accrual-basis IPSASs; and
  - (b) First-time adoption of the specific standard.
10. The proposed transitional provisions are included in the Exposure Draft (ED) to allow respondents to comment on their appropriateness.
11. It is expected that entities moving to accrual basis IPSASs would do so on a comprehensive basis. First-time adoption of IFRSs on a comprehensive basis is addressed in IFRS 1, “First-time Adoption of International Financial Reporting Standards.” There is no comparable IPSAS on first-time adoption of IPSASs. Arguably, for most entities, the provisions dealing with first-time adoption of accrual-basis IPSASs are more important, as the IPSASs are not yet widely applied (although there continues to be progress in adoption worldwide).
12. With regard to adopting a particular IPSAS for the first time, some individual IPSASs include transitional provisions that provide relief. These transitional provisions would also be available to entities adopting all IPSASs for the first time. For IFRS-converged IPSASs, the transitional provisions are generally not the same as the transitional provisions in the equivalent IFRS or the exemptions/exceptions in applying IFRSs in IFRS 1.
13. In certain IFRS-converged IPSASs, extensive transitional provisions have been provided to deal with both first-time adoption of IPSASs and first-time adoption of the standard. Where the transitional provisions in an IPSAS differ from its equivalent IFRS, the transitional provisions of the IPSAS generally provide more generous relief than do their equivalent IFRSs—for example, short-term relief from certain requirements for presentation of comparatives (IPSAS 1), consolidations (IPSAS 6), leases (IPSAS 13), investment property (IPSAS 16), and property, plant and equipment (IPSAS 17). IPSAS 29, “Financial Instruments: Recognition and Measurement” contains substantial and specific provisions to address the complex transactions covered by the standard (see Appendix 1).
14. The IPSASB decided to provide the additional transitional relief when finalizing these IPSASs to acknowledge particular accounting issues or public sector issues related to the initial adoption of these IPSASs—that is, that most entities adopting

IPSASs would be moving from a cash or modified cash or modified accrual basis to an IPSAS basis, rather than moving from an accrual basis consistent with national standards to an accrual basis consistent with IPSASs, as envisaged by IFRS 1. It was anticipated that any entity already applying accrual accounting accordance with national GAAP would not need to take advantage of the generous transitional provisions in IPSASs for example, the requirements for consolidating all controlled entities.

15. For IPSASs that do not include transitional provisions, the IPSASB was content that the provisions in IPSAS 3 were appropriate.

#### **How Should Transitional Provisions be Approached?**

16. Transitional provisions are by necessity, standard-specific. This is a technical issue that needs to be considered in relation to a number of factors including the complexity of the standard, the need to develop reliable measurement models, the underlying IFRS effective date (for IFRS-converged IPSASs), and the extent of change that would be required to existing accounting policies and entities' accounting systems.
17. In approving IPSAS 31, the IPSASB considered what outcome it wanted to achieve and developed transitional provisions to meet its objective, including taking into account ED respondents' comments. IPSAS 31 contains simplified underlying transition principles that take into account the provisions of IPSAS 3 pertaining to the impracticability of retrospective application in some circumstances. IPSAS 31 requires:
  - (a) For entities that have previously recognized intangible assets, retrospective application; and
  - (b) For entities that have not previously recognized intangible assets and that use the accrual basis of accounting, prospective application; however retrospective application is permitted.

Guidance is provided on initial valuation in accordance with the standard.

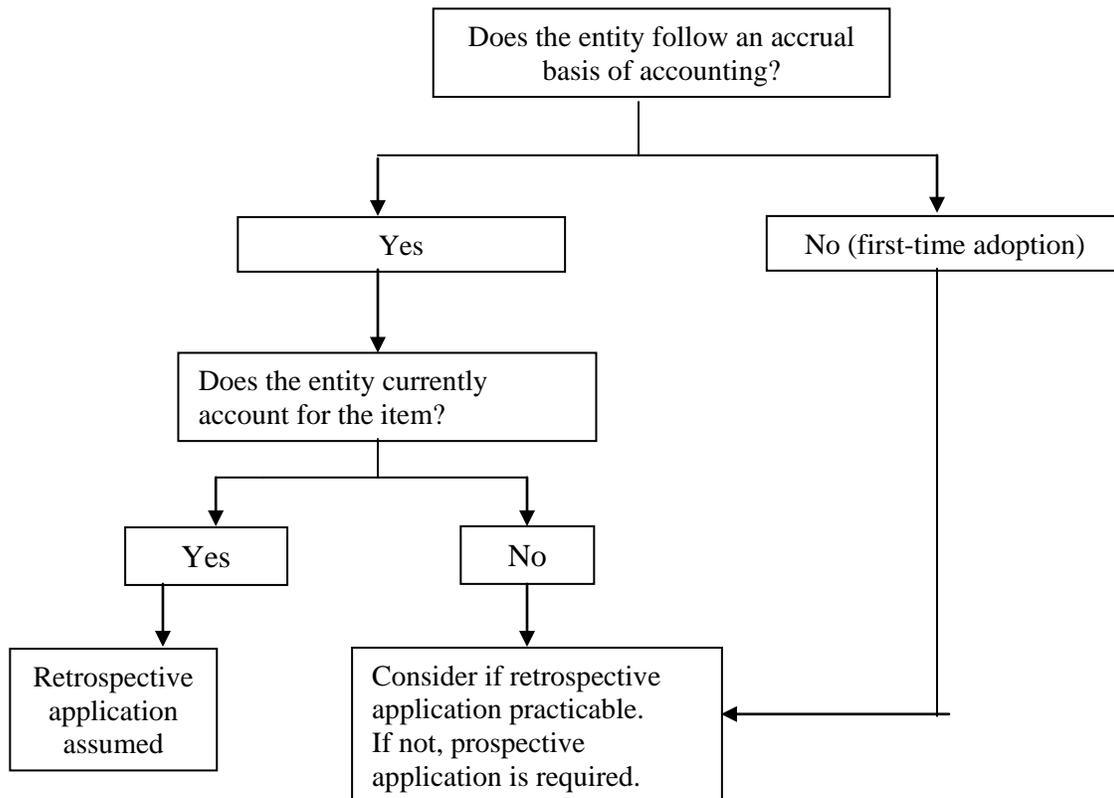
18. Staff considers the experience with IPSAS 31 to be an appropriate basis for developing a broad process that would be appropriate for IPSASs. To date, transitional provisions have not typically been extensively or thoroughly considered until late in the process. Staff notes that the due process needs to specifically include transitional provisions earlier in the process to address the technical issue at a standards level. Ultimately the Guidelines for the Structure of IPSASs could be updated to highlight this aspect of the due process once the IPSASB has determined an appropriate approach.
19. When determining the transitional provisions for an IPSAS, the following would be considered:
  - (a) Entities that use the accrual basis of accounting and account for item would generally apply the standard retrospectively. In this case, it is considered rare that it would be impracticable to apply the IPSAS retrospectively.

- (b) Entities that use the accrual basis of accounting and do not currently account for the item would consider whether it is practicable to apply the standard retrospectively. If not, prospective application is required. Note that in the case of intangible assets, it was felt that the significant portion of such assets would relate to databases, with a short life span, so retrospective application would not be appropriate. In addition, for longer-lived intangible assets, it was less likely than for property, plant and equipment subject to maintenance and other non-accounting documentation, that there would be detailed records maintained if the item had previously been expensed. For this reason, prospective application was required, with retrospective application permitted, to provide clarity about the IPSASB's expectations.
- (c) First-time adoption of the accrual basis of accounting. This case would be similar to that described in (b) above—retrospective application subject to the practicability provision in IPSAS 3.

Exhibit 1 (following page) illustrates this process.

- 20. At a standards level any transitional provisions would need to be considered in the context of whether there is a specific public sector reason for why relief is needed and, if so, what the extent of relief should be. As noted previously, the rationale would consider the specific environment of the public sector, the stage of adoption, the complexity of the standard and other factors. These matters should also be documented in the Basis for Conclusions in order to provide constituents with an understanding of the transitional provisions.
- 21. If the IPSASB agrees with this general approach to transitional provisions as each IPSAS is developed, staff proposes that:
  - (a) The “Guidelines for Structure of IPSASs” (see Agenda Paper 7.1.1) be updated to include this guidance; and
  - (b) When developing IPSASs, staff specifically address transition as a technical issue no later than the Exposure Draft stage.

### Exhibit 1 – Process for Considering Transitional Provisions



#### Is there a Need for an IFRS 1 Equivalent IPSAS

22. The IPSASB currently has this topic on its list of future potential projects. The IPSASB previously considered the need for an IFRS 1 equivalent IPSAS at its October 2003 meeting, shortly after IFRS 1 was issued. Some Members have also expressed the view that there is a need for an IFRS 1 equivalent IPSAS in various discussions since then as a means of dealing with first-time adoption of accrual basis IPSASs.
23. There is an attraction in having a single document that draws together all requirements and guidance relating to the first-time adoption of IPSASs. An IPSAS on first-time adoption would also remove any uncertainty that might exist about whether the requirements of IFRS 1 might apply when IPSASs are first adopted under the existing hierarchy.
24. However, at this point, global adoption of IPSASs is not as far advanced as it is for IFRSs. Moreover, IFRS 1 is predicated on the assumption that entities will be moving to IFRS from another comprehensive set of national accounting standards. The IPSASB's constituency is broader in terms of the accounting bases entities use in practice (i.e., various forms of cash and accrual-based standards). Developing appropriate provisions to cover the variety of circumstances entities may encounter in moving to accrual basis IPSASs would not be a simple task.

25. As noted above, the transitional provisions included in each of the existing IPSASs were developed to address specific transition issues to the standard. Further, in the absence of specific transitional provisions in an IPSAS, the provisions in IPSAS 3 (i.e., retrospective application) apply, even in the case of an IFRS-converged IPSAS with no transitional provisions.
26. It should also be noted that Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Government and Government Entities* (currently in the process of being updated) provides guidance on the approaches that may be adopted in the transition to the accrual basis of accounting, taking into account the specific transitional provisions in IPSASs. This Study is also relevant to all entities intending to adopt IPSASs, including those currently reporting on an accrual basis under other standards or principles. Study 14 is not an authoritative document and cannot specify additional transitional provisions or override the provisions of IPSASs. Currently, it does not include a summary of the transitional provisions in IPSASs, similar to that in Appendix 1.
27. On balance staff proposes that this topic remain on the list of potential future projects that will be considered at the next work planning session.

## Effective Date

### Background

28. Standard wording of the effective date paragraph is as follows:

An entity shall apply this Standard for annual financial statements covering periods beginning on or after [effective date]. Earlier application is encouraged. If an entity applies this Standard for a period beginning before [effective date], it shall disclose that fact.
29. However, it was necessary to provide additional effective date guidance to reflect consequential amendments made to existing IPSASs as a result of the issuance of the four new IPSASs in early 2010. The amended paragraphs in an existing IPSAS would have the same effective date as the new IPSAS that caused the change.
30. An example of this new wording is as follows (from IPSAS 3), which was amended by the improvements, which have an effective date of January 1, 2011:

**59A. Paragraphs 9, 11, and 14 were amended by “Improvements to IPSASs” issued in January 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged.**
31. Public sector entities’ yearends vary (generally March 31, June 30, or December 31). As such, an effective date may occur in an earlier or later fiscal period for various entities depending on their reporting date.
32. Unlike the transitional provisions, which are set out in the ED, the proposed effective date is generally included in the ED as MM DD, YYYY, rather than as a specific date. This does not allow input from respondents on whether the effective date should be extended beyond the minimum period.

33. As an illustration of the need to consider the circumstances related to a specific IPSAS, when the four new IPSASs were issued in early 2010, they had different effective dates. The IPSASB ultimately decided that it was important to get the effective date right for each of the standards, rather than to be consistent among them.
34. Three of the IPSAS dealing with financial instruments, IPSAS 28, “Financial Instruments: Presentation,” IPSAS 29, “Financial Instruments: Recognition and Measurement,” and IPSAS 30, “Financial Instruments: Disclosures,” have an effective date of January 1, 2013.
35. The rationale for this date is stated in Item 2.4 from the December IPSASB meeting minutes:

“Members accepted the staff view that a signal should be given to constituents that the IPSASB intends to address the classification and measurement changes effected in IFRS 9, “Financial Instruments: Amendments to other IFRSs and Guidance,” further changes to the impairment and hedge accounting requirements of IAS 39 and other future changes to IASB requirements on financial instruments. It was therefore necessary that the effective date was not aligned with that proposed for recently issued IPSAS 27, “Agriculture” and draft IPSAS 31, “Intangible Assets.” However, Members considered that there was no strong case for the effective date differing from that of IFRS 9 and therefore decided that the effective date should be January 1, 2013.”

36. IPSAS 31, “Intangible Assets” has an effective date of April 1, 2011. This is consistent with IPSAS 27, “Agriculture,” which was issued in December 2009. For these standards, this earlier date was considered appropriate, on the basis that it would not be onerous to adopters to allow for a minimum of one full year (based on a late 2009/an early 2010 approval date) given that neither standard had identified particular issues.
37. Like transitional provisions, the development of effective dates is a technical issue that needs to be considered in relation to a number of factors that are standard-specific. Historically, the IPSASB has used a “soft” operating principle of a minimum of 12 months from date of publication of the IPSAS, with either a January or July effective date. There is no compelling reason to change this principle.

## Conclusions

38. Changes to IPSAS 3 are not proposed. Staff is of the view that the underlying provisions in IPSAS 3 are appropriate. Nevertheless, it is recognized that more rigour is required in developing both transitional provisions and effective dates.
39. Staff considers that the development of transitional provisions and effective date for IPSASs should be an integral part of the due process and should be done prior to exposure. It is important that constituents are aware of the planned transitional provisions and effective date when commenting on the ED. The IPSASB must consider this as a technical issue to be debated along with the accounting principles in a proposed IPSAS. It is, therefore proposed that this matter be added to the document “Guidelines for Structure and Content of IPSASs.”

40. Given that IPSAS 3 requires retrospective application in the absence of specific transitional provisions, it is not necessary to explicitly restate this principle in transitional provisions of specific IPSASs. The decision to require other than retrospective adoption of an IPSAS needs to reflect the specific issues in adopting the standard in the public sector, and be explained in the Basis for Conclusions.
41. Staff considers that an IPSAS similar to IFRS 1 is not necessary at this time. Constituents have not indicated a need for such an IPSAS, and development of such an IPSAS would use Board and staff resources in this period of resource constraints. The need for an IPSAS will be monitored, taking into account the state of IPSAS adoption, and will be revisited if the environment changes significantly from the present.
42. A summary of existing transitional provisions in IPSASs (as in Appendix 1) as well as more detailed implementation guidance could be developed as a separate appendix or chapter in Study 14 as it is updated. This is a logical place to provide guidance on first-time adoption of IPSASs overall, as it is most likely to pose problems when moving from cash to full accrual. If developed as a separate chapter or appendix in Study 14, it could also be used as a stand-alone document if needed.
43. The underlying principle for effective date should be formally established in the “Guidelines for Structure and Content of IPSASs” to guide the IPSASB’s decisions. The minimum period for the effective date of an IPSAS should be set at 12 months from date of publication of the IPSAS, with either a January or July effective date, except when there are specific reasons to extend it. This would be documented as appropriate in the Basis for Conclusions of the standard.

**Questions for the IPSASB:**

- Do you agree the need for transitional provisions other than those specified in IPSAS 3 should be addressed at a standards level based on the requirements of individual IPSASs and the reasons for such provisions be documented in the Basis for Conclusions?
- Do you agree that the IPSASB should not pursue developing an “IFRS 1” IPSAS at this time, but will continue to monitor the need for such an IPSAS?
- Do you agree that the minimum period as an effective date would be to allow for one full reporting year, unless there are specific (documented) issues related to a standard that need to be addressed in the effective date?

**Appendix 1 – Summary of Transitional Provisions in IPSASs 1–31<sup>1</sup>**

IPSAS		Paragraph Reference	Transitional Provisions	Transition Period
IPSAS 1	Presentation of Financial Statements	151-152	<ul style="list-style-type: none"> <li>Provisions of IPSAS 1 do not apply to items not recognized as a result of using a transitional provision under another IPSAS (¶151).                             <ul style="list-style-type: none"> <li>Entities are encouraged to comply in full with the provisions of the other IPSAS as soon as possible (¶152).</li> </ul> </li> <li>Comparative information is not required in the year in which accrual accounting in accordance with IPSAS is first adopted (¶151).</li> </ul>	Until transitional provision in the other IPSAS expires.
IPSAS 2	Cash Flow Statements		No transitional provision.	
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors		No transitional provision.	
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	67-70	<ul style="list-style-type: none"> <li>The reporting entity is not required to recognize cumulative translation differences for foreign operations<sup>2</sup> existing at the date of first adoption of accrual accounting in accordance with IPSAS (¶67).                             <ul style="list-style-type: none"> <li>Cumulative translation differences are deemed to be zero (¶67a).</li> <li>Gains and losses on disposal of those foreign operations include only translation differences that arise after the date of first adoption (¶67b).</li> </ul> </li> <li>Prospective application is required for goodwill and fair value adjustments on all acquisitions occurring after the beginning of the financial reporting period in which the standard is first applied. Retrospective application is permitted for transactions occurring before that date (¶69).</li> <li>All other changes resulting from application of IPSAS 4 shall be accounted for in accordance with the provisions of IPSAS 3 (¶70).</li> </ul>	

<sup>1</sup> Chart adapted from UN System prepared document.

<sup>2</sup> Other provisions of IPSAS 4 require an entity to classify certain translation differences as a separate component of net assets/equity and to transfer those differences to the Statement of Financial Performance as part of the gain or loss on disposal.

IPSAS		Paragraph Reference	Transitional Provisions	Transition Period
IPSAS 5	Borrowing Costs	41	<ul style="list-style-type: none"> <li>When the adoption of IPSAS 5 results in a change of accounting policy, the entity is encouraged to follow IPSAS 3 in adjusting its financial statements (¶41). IPSAS 3 requires retrospective application of a change in accounting policy.</li> <li>An entity following the allowed alternative treatment<sup>3</sup> may otherwise capitalize only those costs incurred after the effective date of the Standard which meet the criteria for capitalization (¶41).</li> </ul>	
IPSAS 6	Consolidated and Separate Financial Statements	65-68	<ul style="list-style-type: none"> <li>Entities are not required to fully eliminate balances and transactions (¶45) for the purpose of preparing consolidated financial statements of the economic entity for reporting periods beginning within 3 years following the date of first adoption of accrual accounting in accordance with IPSAS (¶65-66).                             <ul style="list-style-type: none"> <li>Where this transitional provision is applied, disclosure is required that not all balances and transactions between entities have been eliminated (¶67).</li> </ul> </li> </ul>	3 years
IPSAS 7	Investments in Associates		No transitional provision.	
IPSAS 8	Interests in Joint Ventures	65-68	<ul style="list-style-type: none"> <li>Where proportionate consolidation is adopted, venturers are not required to eliminate balances and transactions between themselves, their controlled entities and entities they jointly control for reporting periods beginning within 3 years following the date of first adoption of accrual accounting in accordance with IPSAS (¶65-66).                             <ul style="list-style-type: none"> <li>Where this transitional provision is applied, disclosure is required that not all inter-entity balances and transactions have been eliminated (¶67).</li> </ul> </li> </ul>	3 years
IPSAS 9	Revenue from Exchange Transactions		No transitional provision.	
IPSAS 10	Financial Reporting in Hyperinflationary Economies		No transitional provision.	

<sup>3</sup> Under the allowed alternative treatment (¶17-39), eligible borrowing costs directly attributable to the acquisition, construction or production of an asset are capitalized in the cost of the asset.

IPSAS		Paragraph Reference	Transitional Provisions	Transition Period
IPSAS 11	Construction Contracts		No transitional provision.	
IPSAS 12	Inventories		No transitional provision.	
IPSAS 13	Leases	79-84	<ul style="list-style-type: none"> <li>• Provisions of IPSAS 13 do not apply to leased assets not recognized as a result of using a transitional provision under another IPSAS, for example, IPSAS 17 (¶79). <ul style="list-style-type: none"> <li>– Entities are encouraged to comply in full with the provisions of the other IPSAS as soon as possible (¶80).</li> </ul> </li> <li>• Additional transitional provisions apply to entities which have already adopted the accrual basis of accounting or previously applied IPSAS 13 (2001) (¶81-84).</li> </ul>	Until transitional provision in the other IPSAS expires.
IPSAS 14	Events After the Reporting Date		No transitional provision.	
IPSAS 15	Financial Instruments: Disclosure and Presentation	102	<ul style="list-style-type: none"> <li>• Comparative information for prior periods does not need to be presented when it is not available on first adoption of IPSAS 15 (¶102).</li> </ul>	
IPSAS 16	Investment Property	91-100	<ul style="list-style-type: none"> <li>• Investment property is recognized at cost or fair value at the date of first adoption of accrual accounting in accordance with IPSAS (¶91, 93). <ul style="list-style-type: none"> <li>– For properties acquired at no or nominal cost, cost is fair value at the date of acquisition (¶91, 93).</li> <li>– When the cost of acquisition of investment property is unknown, it may be estimated by reference to its fair value at the date of acquisition (¶93).</li> </ul> </li> <li>• The effect of initial recognition of investment property is recognized as an adjustment to the opening balance of accumulated surpluses or deficits in the period in which accrual accounting in accordance with IPSAS is first adopted (¶92).</li> <li>• Additional transitional provisions apply to entities which have previously applied IPSAS 16 (2001) or recognized/disclosed the fair value/cost of investment properties in earlier periods (¶94-100).</li> </ul>	
IPSAS 17	Property, Plant and Equipment	95-106	<ul style="list-style-type: none"> <li>• Entities are not required to recognize PPE for reporting periods beginning within 5 years following the date of first adoption of accrual accounting in accordance with IPSAS (¶95, 96, 101).</li> </ul>	5 years

IPSAS		Paragraph Reference	Transitional Provisions	Transition Period
			<ul style="list-style-type: none"> <li>– Entities are encouraged to comply in full with the provisions of the Standard as soon as possible (¶102).</li> <li>– The measurement and disclosure requirements of IPSAS 17 do not apply to assets or classes of assets not recognized in accordance with this provision (¶103).</li> <li>• PPE is recognized at cost or fair value at the date of initial recognition when an entity first adopts accrual accounting in accordance with IPSAS (¶96, 98). <ul style="list-style-type: none"> <li>– For PPE acquired at no or nominal cost, cost is fair value at the date of acquisition (¶96, 98).</li> <li>– When the cost of acquisition of PPE is unknown, it may be estimated by reference to its fair value at the date of acquisition (¶98).</li> <li>– When PPE is recognized at cost, any accumulated depreciation and impairment losses must also be recognized in accordance with IPSAS 3 (¶99).</li> </ul> </li> <li>• The effect of initial recognition of PPE is recognized as an adjustment to the opening balance of accumulated surpluses or deficits in the period in which the PPE is initially recognized (¶97).</li> <li>• If transitional provisions are used on first adoption of accrual accounting in accordance with IPSAS, disclosure of that fact is required (¶104). <ul style="list-style-type: none"> <li>– Disclosure of information on major classes of assets not recognized is also required (¶104).</li> <li>– When transitional provisions are used for second or subsequent reporting periods, the details of assets or classes of assets that have been recognized since the previous reporting date must be disclosed (¶104).</li> </ul> </li> <li>• Additional transitional provisions apply to entities which have previously applied IPSAS 17 (2001) (¶105, 106).</li> </ul>	
IPSAS 18	Segment Reporting		No transitional provision.	
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	110	<ul style="list-style-type: none"> <li>• The effect of adopting IPSAS 19 is recognized as an adjustment to the opening balance of accumulated surpluses or deficits in the period in which IPSAS 19 is first adopted (¶110).</li> </ul>	

IPSAS		Paragraph Reference	Transitional Provisions	Transition Period
IPSAS 20	Related Party Disclosures		No transitional provision.	
IPSAS 21	Impairment of Non-Cash-Generating Assets	75-76	<ul style="list-style-type: none"> <li>• IPSAS 21 is applied prospectively (¶75, 76).                             <ul style="list-style-type: none"> <li>– Impairment losses (and reversals of impairment losses) resulting from adoption of IPSAS 21 are recognized in surplus or deficit (¶75).</li> </ul> </li> </ul>	
IPSAS 22	Disclosure of Financial Information about the General Government Sector		No transitional provision.	
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	116-123	<ul style="list-style-type: none"> <li>• Entities are not required to change their accounting policies for recognition and measurement of taxation revenue for reporting periods beginning within 5 years following first adoption of IPSAS 23 (¶116).</li> <li>• Entities are not required to change their accounting policies for recognition and measurement of revenue from non-exchange transactions (other than taxation revenue) for reporting periods beginning within 3 years<sup>4</sup> following first adoption of IPSAS 23 (¶117).                             <ul style="list-style-type: none"> <li>– Changes in accounting policies before the expiration of the 5-year/3-year period may only be made to better conform to the requirements of IPSAS 23 (¶118)<sup>5</sup>.</li> <li>– Changes in accounting policies for revenue from non-exchange transactions may be made on a class by class basis (¶118)<sup>6</sup>.</li> </ul> </li> <li>• If the transitional provisions in IPSAS 23 are used, disclosure of that fact is required (¶119).                             <ul style="list-style-type: none"> <li>– Disclosure is also required of the following (¶119)<sup>7</sup>:                                     <ul style="list-style-type: none"> <li>▪ classes of revenue from non-exchange transactions which are recognized in accordance with IPSAS 23</li> </ul> </li> </ul> </li> </ul>	5 years for taxation revenue 3 years for non-exchange transactions other than taxation revenue

<sup>4</sup> A similar transitional provision applies to taxation revenue but the transition period is 5 years (¶116).

<sup>5</sup> An entity may retain its existing accounting policies until it decides to fully apply IPSAS 23 or until the transitional provisions expire (whichever is earlier), or it may change them to apply the requirements of IPSAS 23 progressively (¶122).

<sup>6</sup> The transitional provisions allow entities to apply IPSAS 23 incrementally to different classes of revenue from non-exchange transactions (¶121).

<sup>7</sup> These disclosure requirements assist users in tracking the progress of the entity in adopting accounting policies consistent with IPSAS 23 during the transition period thus improving accountability and transparency (¶123).

IPSAS		Paragraph Reference	Transitional Provisions	Transition Period
			<ul style="list-style-type: none"> <li>▪ classes of revenue from non-exchange transactions which are recognized under an accounting policy that is inconsistent with IPSAS 23</li> <li>▪ the entity's progress towards and plans for implementing accounting policies that are consistent with IPSAS 23</li> <li>– When transitional provisions are used for second or subsequent reporting periods, the details of classes of revenue from non-exchange transactions that have been recognized in accordance with IPSAS 23 since the previous reporting date must be disclosed (¶120).</li> </ul>	
IPSAS 24	Presentation of Budget Information in Financial Statements		No transitional provision.	
IPSAS 25	Employee Benefits	166-176	<ul style="list-style-type: none"> <li>• No transitional provision.</li> <li>• Guidance for first-time adoption of IPSAS 25 (¶166-176) includes: <ul style="list-style-type: none"> <li>– the method for calculating the initial liability for defined benefit plans</li> <li>– recognition of the effect of the change in accounting policy in opening accumulated surpluses or deficits</li> <li>– recognition of all cumulative actuarial gains and losses in opening accumulated surpluses or deficits</li> <li>– relief from requirements for comparative information and the provision of certain disclosures in the first year of adoption.</li> </ul> </li> </ul>	
IPSAS 26	Impairment of Cash Generating Assets		No transitional provision.	
IPSAS 27	Agriculture	55	<ul style="list-style-type: none"> <li>• Entities are required to report the effect of the initial recognition of biological assets, and agricultural produce as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which this Standard is first adopted.</li> </ul>	
IPSAS 28	Financial Instruments: Presentation	56-58	<ul style="list-style-type: none"> <li>• Retrospective application required on first-time adoption (¶56).</li> <li>• Entities that previously applied IPSAS 15 and have compound financial instruments need not separate the item into two components (debt/equity) if the liability component is no longer outstanding when the Standard is adopted (¶57).</li> <li>• This provision also applies to all compound financial instruments</li> </ul>	

IPSAS		Paragraph Reference	Transitional Provisions	Transition Period
			when an entity either previously did not apply IPSAS 15 or adopts accrual accounting for the first time (¶58).	
IPSAS 29	Financial Instruments: Recognition and Measurement	114-123	<ul style="list-style-type: none"> <li>• Retrospective application required on first-time adoption with some exceptions (¶114).</li> <li>• Provisions address the following: <ul style="list-style-type: none"> <li>– Designation of an asset, including a previously recognized asset, as available for sale when the standard is first applied (¶115);</li> <li>– Designation of a financial asset or a financial liability, including those that may have been recognized previously, at fair value through surplus or deficit that meet the criteria for designation when the standard is first applied (¶116);</li> <li>– Restatement of comparative financial statements using the new designations in paragraph 116 (¶117);</li> <li>– Application of derecognition requirements (¶118, 119);</li> <li>– Application of valuation techniques (¶120);</li> <li>– The treatment of fair value hedges included in the carrying amount of non-financial assets and non-financial liabilities before the beginning of the financial year in which the standard is first applied (¶121);</li> <li>– The application of hedge accounting to and external forecast transaction designated as the hedged item (¶122); and</li> <li>– The application to specified comparative information of the requirement to reclassify to surplus or deficit specified gains or losses that are recognized directly in net assets/equity ¶123).</li> </ul> </li> </ul>	
IPSAS 30	Financial Instruments: Disclosures	52	<ul style="list-style-type: none"> <li>• No transition provision.</li> <li>• Comparative information is not required to be presented for the disclosures required by paragraphs 38–49 about the nature and extent of risks arising from financial instruments if the entity adopts IPSAS 30 before the effective date (¶52).</li> </ul>	
IPSAS 31	Intangible Assets	128-131	<ul style="list-style-type: none"> <li>• Entities that have previously recognized intangible assets are required to apply the Standard retrospectively (¶128).</li> <li>• Entities that have not previously recognized intangible assets and use the accrual basis of accounting are required apply the Standard prospectively. However, retrospective application is permitted</li> </ul>	

	IPSAS	Paragraph Reference	Transitional Provisions	Transition Period
			<p>(¶129).</p> <ul style="list-style-type: none"> <li>• An entity may elect to measure an intangible asset on the date of transition, at its fair value and use that fair value as its deemed cost at that date if the intangible item meets: <ul style="list-style-type: none"> <li>– The recognition criteria in this Standard including reliable measurement of original cost; and</li> <li>– The criteria in this Standard for revaluation including existence of an active market (¶130).</li> </ul> </li> <li>• An entity may elect to use a previous revaluation of an intangible asset at, or before, the date of transition as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to: <ul style="list-style-type: none"> <li>– Fair value; or</li> <li>– Cost or depreciated cost in accordance with IPSASs, adjusted to reflect, for example, changes in a general or specific price index (¶131).</li> </ul> </li> </ul>	

## Appendix 2 – Excerpts from IPSAS 3

### Retrospective Application

27. **Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

### Limitations on Retrospective Application

28. **When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**
29. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.**
30. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**
31. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated surpluses or deficits. However, the adjustment may be made to another component of net assets/equity (for example, to comply with an IPSAS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.
32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the

new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities, and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 55–58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

### **Impracticability in Respect of Retrospective Application and Retrospective Restatement**

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56–58, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to re-create the information.
56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events, or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event, or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event, or condition occurred.
57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:
  - (a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and
  - (b) Would have been available when the financial statements for that prior period were authorized for issue;

from other information. For some types of estimates (e.g., an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what

management's intentions would have been in a prior period or estimating the amounts recognized, measured, or disclosed in a prior period. For example, when an entity corrects a prior period error in classifying government building as an investment property (the building was previously classified as property, plant, and equipment), it does not change the basis of classification for that period, if management decided later to use that building as an owner-occupied office building. In addition, when an entity corrects a prior period error in calculating its liability for provision of cleaning costs of pollution resulting from government operations in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets," it disregards information about an unusually large oil leak from a naval supply ship during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.