

## **A proposed Standard on first-time adoption of Accrual Basis IPSASs heralds a smooth transition to an accrual reporting framework**

**The International Public Sector Accounting Standards Board (IPSASB) has recently issued a proposed Standard on *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*.**

**In this article, AMANDA BOTHA, project manager at the Accounting Standards Board, explains how the application of the principles in the proposed IPSAS will enhance the credibility of a first-time adopter's financial statements during its transition to full accrual accounting.**

The introduction of a Public Sector Accounting Standard (IPSAS) will provide a comprehensive set of principles that will provide relief to an entity that wants to adopt accrual basis IPSASs for the first time.

As existing IPSASs deal with first time adoption of the Standards in an inconsistent way, this IPSAS will ensure that accrual basis IPSASs are adopted consistently by jurisdictions, and in a more comparable way. Applying the principles in the proposed IPSAS will enhance the credibility of a first-time adopter's financial statements during its transition to full accrual accounting.

Even though the proposed IPSAS provides relief on accrual accounting principles when accrual basis IPSASs are first applied, Standard-setters in each jurisdiction have to play a prominent role in developing appropriate guidance to assist entities with the adoption of the accrual based IPSASs.

Additional assistance is needed as issues relating to first-time adoption are likely to vary from jurisdiction to jurisdiction. Such guidance is important to ensure that entities prepare well in advance for their transition to accrual basis IPSASs, and not to rely solely on the relief period provided in the IPSAS.

One of the biggest challenges once accrual accounting has been adopted is to identify and appropriately classify assets under an entity's control, together with the initial measurement of them.

Comprehensive information about the existence of all the assets under the control of the first-time adopter may be lacking. Consequently, the proposed IPSAS allows a first-time adopter up to three years to recognise and/or measure its assets, with the exception of inventories, while compiling appropriate records to account for them.

This relief period provides a first-time adopter sufficient time to appropriately identify all the assets under its control, and to classify them on the basis of how the entity uses or intends to use them. This allows an entity time to develop reliable models to measure its assets.

In terms of the three-year transitional period, the proposed IPSAS allows exemption from the recognition and/or measurement of certain assets, as well as certain liabilities, which is an advantage of the transitional exemption process.

For example, if an entity adopts the three year exemption not to recognise finance lease assets, it will not be required to apply the requirements to finance lease liabilities until the exemption that provided the relief has expired, or the relevant assets are recognised in accordance with the applicable IPSAS. A three year relief period may also be adopted for the recognition and/or measurement of defined benefit plans and other long-term employee benefits.

Where a first-time adopter has elected the three year transitional relief period, it will not be required to apply any associated presentation and/or disclosure requirements.

In providing apposite information to users of financial statements during the transition, a first-time adopter shall present a reconciliation of items that have been recognised and/or measured during the reporting period in cases where they were excluded in the previous reported financial statements. This reconciliation must appear as part of the notes to the financial statements.

To assist entities in measuring their assets where reliable cost information is not available on the date of adoption of accrual basis IPSASs, the proposed IPSAS allows an entity to determine fair value. It may use that fair value as a deemed cost on initial recognition.

But to avoid the selective valuation of assets, the use of deemed cost is restricted to circumstances where reliable cost information about the historical cost is unknown on the date of adoption.

Allowing a first-time adopter to not recognise and/or measure certain assets and/or liabilities during the three year relief period may result in a number of significant items not being reflected on the financial statements while the entity is in the transitional phase.

The IPSASB has thus indicated that where certain exemptions are applied, an entity would be unable to claim compliance with IPSASs. It would also be unable to make an explicit and unreserved statement about the financial statement's fair presentation during this period.

To ensure that users are provided with relevant information during the transition to accrual basis IPSAS, certain disclosures are required during the transition to inform users about the exemptions adopted and how a first-time adopter intends to change from its previous basis of accounting to accrual basis IPSASs.

The proposed IPSAS addresses the key concerns that are likely to be experienced by South African public sector entities, such as public departments, when they move from their current reporting framework to an accrual basis. The proposed IPSAS is therefore welcomed in the South African public sector.

It is important that jurisdictions, in changing to accrual accounting, recognise the size and complexity of their activities in developing appropriate strategies when adopting accrual basis IPSASs.

To facilitate a smooth transition to an accrual reporting framework jurisdictions must ensure that adoption is planned well in advance.

### Questions:

1. True or False? The International Public Sector Accounting Board (IPSASB) has recently issued a Standard on *First-time Adoption of Accrual Basis IPSAS*.

False – the IPSASB issued a proposed Standard for comment.

2. Yes or No? Should a first-time adopter that takes advantage of the relief period provided for the recognition and/or measurement of certain assets and/or liabilities adhere to all the disclosure requirements in all the applicable IPSASs?

No – a first-time adopter is not required to apply the associated presentation and/or disclosure requirements for those items where relief has been adopted.

3. True or False? The proposed IPSAS allows a five year relief period for the recognition and measurement of certain assets.

False – the proposed IPSAS allows a three year transitional relief period.

4. Yes or No? A deemed cost may be determined for all assets and liabilities on the date of adoption of accrual basis IPSASs.

No – a deemed cost may only be determined if reliable cost information about the historical cost is unknown on the date of adoption.

5. True or False? Transitional relief is provided for the recognition and/or measurement of all assets.

False – transitional relief is not provided for the recognition and/or measurement of inventories.

6. True or False? No additional disclosures are needed about the exemptions adopted in the proposed IPSAS.

False – certain disclosures are required during the period of transition to inform users about the exemptions adopted and how a first-time adopter intends to change from its previous basis of accounting to accrual basis IPSASs.

7. True or False? A first-time adopter that has elected to apply one or more of the transitional exemptions not to recognise and/or measure certain assets and liabilities, will be unable to claim compliance with accrual basis IPSASs during the transitional period.

True – adopting the three year relief period will affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSASs.

8. True or False? The proposed IPSAS is welcomed in the South African public sector.

True – it would be particularly useful to public departments that still need to change to an accrual reporting framework.