

Accounting for Assets and Liabilities

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Outline of presentation



- Fixed assets
- Tax asset
- Public debt
- Pension liabilities
- Government liabilities usually far exceed assets

Fixed assets

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Mapping of two classifications: Iran-IPSAS

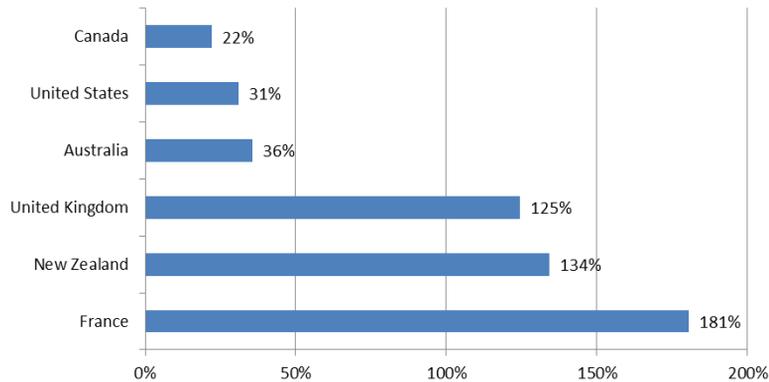
IPSAS

		IPSAS		
		IPSAS 17 Property, Plant and Equipment	IPSAS 16 Investment Property	IPSAS 12 Inventories
Iran	Immovable assets: Land and buildings	government office buildings, social housing	property held for value increase and rental income	land and buildings held for sale
	Movable assets	capital goods	vehicles, computers, furniture	
		non-capital (consumable) goods		
	Negotiable papers			unissued currency, passports, stamps

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Fixed assets as a percentage of government revenues

Can you think of the reasons for these large differences?



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IPSAS 17 is applicable in accounting for property, plant and equipment:

Including

- Specialist military equipment
- Infrastructure assets
- Social housing

Excluding

- Items treated by other standards, eg biological assets, investment property
- Heritage assets (recognized on a voluntary basis)

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Recognition

- Specialist military equipment: recognition required
- Heritage assets: recognition allowed, but not required
- Asset shall be recognized on the balance sheet of the entity controlling the asset

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Component accounting

- Allocation of the capital expenditure to its significant components
- Separate depreciation of components with different useful life
- Example: depreciate components of a road separately: pavement, curbs, footpaths, bridges and lighting

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Measurement at recognition

- At cost
 - If the asset is acquired through a non-exchange transaction (i.e. no or nominal consideration), its cost is its fair value at the date of acquisition
- Elements of costs
 - Purchase price and import duties
 - Directly attributable costs
 - Estimate of the costs of dismantling and removing the item and restoring its site

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Measurement subsequent to initial recognition

- **Cost model:** the asset is carried at cost less accumulated depreciation and impairment losses; or
- **Revaluation model:** the asset is carried at revalued amount less subsequent depreciation and impairment losses
 - Revaluation to be made regularly, e.g. every 3 years
 - Revaluation for the entire class of asset, e.g. land, buildings, roads, machinery
 - Increase recognized directly in revaluation surplus
 - Decrease recognized in statement of financial performance

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Depreciable amount

- Depreciable amount = cost minus residual value
- Depreciated on a systematic basis over useful life of asset
- Residual value may be immaterial
- Once carrying amount equals residual value: depreciation charge is zero

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Useful life

- The period over which an asset is expected to be available for use by an entity OR the number of production units expected to be obtained from the asset
- Factors to consider:
 - Expected usage of the asset
 - Expected physical wear and tear
 - Technical or commercial obsolescence
 - Legal limits

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Depreciation

- Depreciation method: shall reflect the pattern in which the asset will be consumed, e.g.
 - straight-line method
 - diminishing balance method
 - unit of production method
- Residual value, useful life and depreciation method to be reviewed annually
- If revision: change in accounting estimate to be applied prospectively

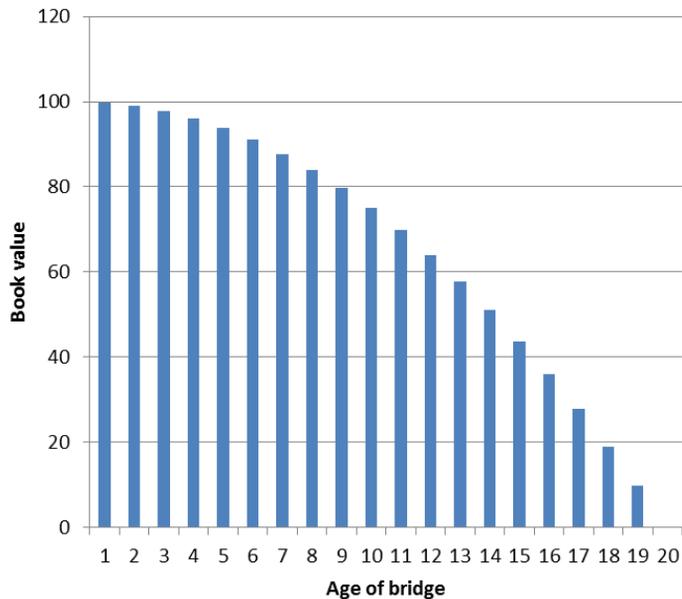
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Country example: bridge infrastructure in Tasmania

- Bridges are depreciated systematically over their useful life having regard to their unique rate of deterioration
- Bridge values are depreciated parabolically to reflect the greater depreciation towards the end of the useful life of the bridge

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Depreciation of bridge infrastructure



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Measurement options on transition (opening balance sheet)

- Historical cost measurement
 - At the historical cost at the date of acquisition plus subsequent expenditure less accumulated depreciation and any impairment losses
- Historical fair value measurement
 - At fair value at the date of acquisition plus subsequent expenditure less accumulated depreciation and any impairment losses
- Transition fair value measurement
 - At fair value at the opening balance sheet date, e.g.: valuation of real estate or depreciated replaced cost of infrastructure

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Example: Asset valuation in Turkey

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Public Financial Management and Control Law (2003)

Turkey

- Law includes a heading 'Movable and immovable asset transactions'
- General Directorate of National Property and General Directorate of Public Accounts are conducting a joint project related to accounting for fixed assets
- The aim of this project is to recognize government real estate on governmental balance sheet by the end of 2016

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Decree of recording the immovables of public institutions (2006)

Turkey

- This decree regulates the recording of the immovables owned, managed or used by public entities
- The recording of accounting values started only in 2014 after criticism by the auditor

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Valuation basis: market value

Turkey

- Immovable assets will be recorded at market value, determined by owner or user entity
- The decree requires that the market value recordings are completed by 31/12/2016
- Currently, almost all 2.4 million parcels of land and buildings are still recorded at tax-based value. Only 422,000 parcels of land and buildings are recorded at market value

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Valuation bases: nominal value

Turkey

The following assets will be recorded at nominal value of 0.01 TL:

- Forests and lakes
- Shores
- Prayer halls
- Graveyards
- Fields left to free usage of public

Threshold for the Recognition of Fixed Assets

Materiality

- Omissions or misstatements are material if they could, individually or collectively, influence the decisions of the users of the financial statements
- Materiality depends on the nature and size of the omission or misstatement judged in the circumstances

International Civil Aviation Organization – 2013 financial statements

- Property, plant and equipment are capitalized if their cost is greater than the threshold limit set at
- \$ 3,000 for freehold assets
- \$ 25,000 for leasehold improvements

World Health Organization – 2014 financial statements

- Property, plant and equipment with a value greater than US\$ 5,000 are recognized as non-current assets in the statement of financial position

Hyperinflation

IPSAS 10 Financial Reporting in Hyperinflationary Economies

- Prescribes reporting in the currency of a hyperinflationary economy
- The financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the reporting date
- The comparative figures for the previous period shall be stated in terms of the measuring unit current at the reporting date

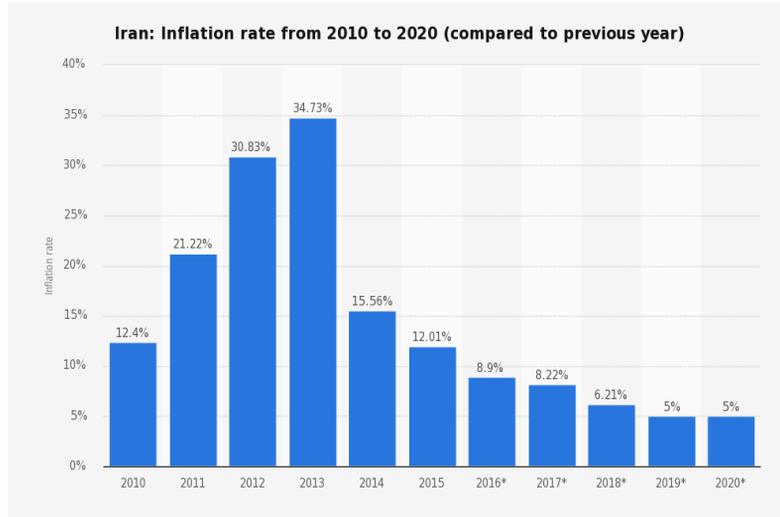
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When shall financial statements shall be restated in accordance with IPSAS 10?
Indicators of hyperinflation include:

- Population keeps its wealth in non-monetary assets or in a stable foreign currency to maintain purchasing power
- Prices are quoted in a foreign currency
- Interest rates, wages, and prices are linked to a price index
- The cumulative inflation rate over three years is approaching, or exceeds, 100%

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Iran is not a hyperinflationary economy



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Tax assets

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Taxes

- An entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met
- Recognition criteria of an asset:
 - probable that the revenue will flow to the entity; and
 - the fair value of the asset can be measured reliably

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Taxable event. Some examples

Corporate income tax	Earning of profit during the period by the company
Value added tax	Sale or purchase during the period by the taxpayer
Customs duty	Movement of dutiable goods or services across the customs boundary
Inheritance tax	Death of a person owning taxable property

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Measurement of tax assets

- Assets arising from taxation are measured at the best estimate of the inflow of resources to the entity
- Recognition of tax receivable should not wait until taxpayer submits tax return
- Government should develop accounting policies for the measurement of assets arising from taxation transactions

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Tax gap

- Tax gap: difference between what is legally due under the law and what the government will be able to collect (e.g. smuggling)

Gross tax revenues	30
Tax gap	10
Net tax revenues	20

- Does the government have to gross up estimated taxes revenues and deduct tax gap (see table)?
- No: tax gap is not reliably measurable.

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Statistical models will take into account:

- Preliminary estimates submitted by tax payers during the period
- Macro-economic estimates of company profits
- Experience from previous years

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Tax receivable in UK (2013/2014)

	billion £
Accrued tax revenue	89
Taxation and duties due	26
Tax asset on balance sheet	115

- **Accrued tax revenue:** not yet due (estimated using statistical models)
- **Taxation and duties due:** amounts due from taxpayers (liability has been established but payment has not yet been received)

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Tax assets in selected countries

In billion	Tax asset	Tax revenue	%
Australia 2014/15 (\$)	48	355	13,6%
Canada 2014/15 (\$)	98	227	43,3%
UK 2013/14 (£)	115	556	20,7%

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Tax asset - Aging analysis (Canada 2014/2015)

	Tax asset (million \$)
Less than one year *)	72
1-2 years	7
2-3 years	5
3-4 years	4
4-5 years	4
Over 5 years	19
Total	111
Doubtful debtors	-13
Balance sheet valuation	98

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Public Debt Disclosures: Best Practices

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By maturity and carrying amount (discounted cash flow) and nominal value

Department of Infrastructure, Victoria

	Borrowings (mln \$)
Less than month	1,015
1-2 months	10
3 months – 1 year	44
1-5 years	135
Over 5 years	786
Nominal value	1,990
Carrying amount	1,416

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Sensitivity analysis (interest rate risk)

Australia

Change in interest rate	Effect on surplus (mln \$)	Effect on net worth (mln \$)
+100 basis points	-230	-230
- 100 basis points	+269	269

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Movement during the year

Canada

	Debt (mln \$)
Opening	57
Receipts	23
Payments	-3
Revaluations	
Cancellations	
Closing	77

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Breakdown by type, source, maturity, guarantee

New Zealand	2014, in mln \$
By type	
Government bonds	60
Treasury bills	3
Government retail stock	0
Settlement deposit with Reserve Bank	8
Derivatives in loss	2
Financial lease liabilities	1
Other borrowings	28
Total borrowings	103
By source	
Core Crown	89
Crown entities	5
State-owned entities	26
Inter-segment eliminations	-17
Total borrowings	103

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Breakdown by type, source, maturity, guarantee

New Zealand	2014, in mln \$
By maturity	
Within one year	39
More than one year	64
Total borrowings	103
By guarantee	
Sovereign-guaranteed debt	77
Non-sovereign debt	26
Total borrowings	103

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Foreign and Domestic, Current and Non-current, General Government Sector

State of Victoria

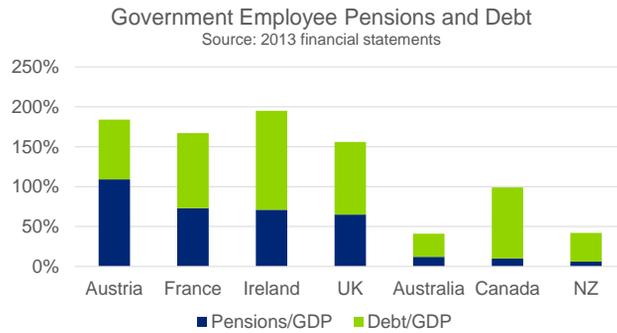
2014, in mln \$	State of Victoria	General Government Sector
Current borrowings		
Domestic borrowings	2,937	1,439
Foreign borrowings	168	
Finance lease liabilities	187	116
Derivative financial instruments	235	
Total current borrowings	3,527	1,555
Non-current borrowings		
Domestic borrowings	38,681	23,444
Foreign borrowings	100	
Finance lease liabilities	8,630	7,934
Derivative financial instruments	338	21
Total non-current borrowings	47,750	31,399
Total borrowings	51,277	32,954

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Pension liabilities

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Comparing 'debt + pension liability' is more informative than comparing 'debt'



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Government liabilities
usually far exceed assets

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Most governments have negative net worth (= assets – liabilities) mainly because of pension liabilities and public debt

Government	Net worth in bln local currency	GDP in bln	% GDP
France-central	-2,239	2,114	-106%
US-federal	-16,909	16,768	-101%
UK-whole government	-1,629	1,713	-95%
Canada-federal	-611	1,894	-32%
Australia-federal	-264	1,586	-17%
New Zealand-central	+81	230	+35%

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