



PULSAR

Financial Reporting Community of Practice (FINCOP)

5th Workshop

Recognizing and measuring public sector assets:

A brief overview

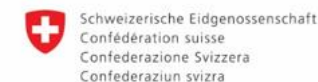
Vienna, Austria, November 21-22, 2019

Sandro Fuchs, PhD, Head of Centre for PFM, Zurich University of Applied Sciences



Public Sector Accounting and Reporting Program

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A simplified (road)map of the next 20 minutes...



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A government invests in, receives or constructs an asset....



If / when to **recognize** the asset?

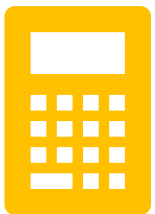
What are the conditions to recognize an asset?

Which asset types are covered under IPSAS?

And what to do, if there is no designated standard?

How to distinguish between assets and expenses?

Capitalization thresholds



How to **measure** the asset?

At cost?

At fair value?

Revaluation model?

What does count as costs?

How do I determine the fair value of an asset?

How do I determine the useful life of an asset?

Depreciation principles

What do I do in this circumstance?

What do I do when I am not able to identify the costs?

Deemed cost

Impairment



The universe of asset types and relevant IPSASs



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Impairment (IPSAS 21/26)

Service Concessions/PPP
(IPSAS 32)

Agriculture
(IPSAS 27)

Inventories
(IPSAS 12)

Financial Instruments
(IPSAS 28, 30, 41)

Assets

Property, Plant and Equipment
(including Infrastructure,
Heritage Assets)
(IPSAS 17, and reference standard for
other standards)

Investment Property
(IPSAS 16)

Intangibles
(IPSAS 31)

Other entities
(IPSAS 34, 35, 36, 37, 38)



Distinguishing assets and expenses is not always straightforward...



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Asset

1. When it is probable that the entity obtains future economic benefits or service potential from the **asset** (= Definition)
2. The value of the **asset** can be measured reliably.

Otherwise it is recognized as an **expense**.



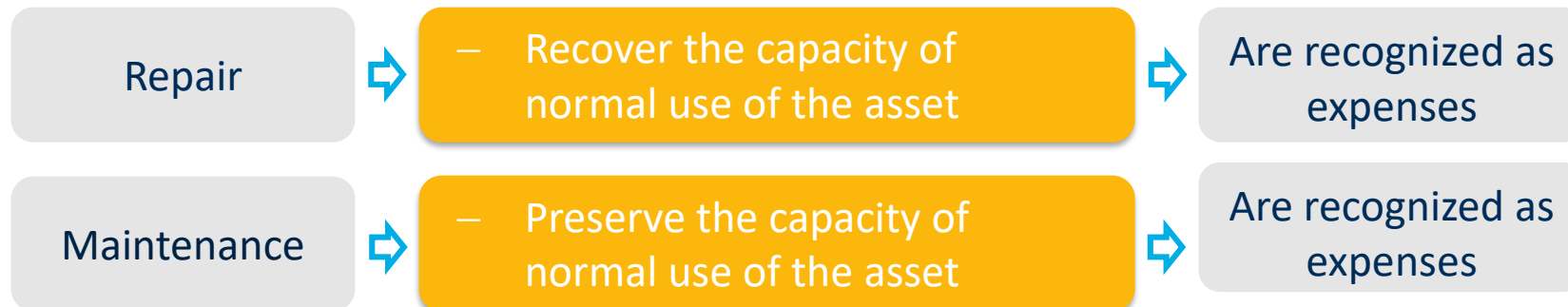
Expense

An **expense** is a decrease in the net financial position of the entity, other than decreases arising from ownership distributions (no designated standard for expenses yet).

Distinguishing assets and expenses: The case of property, plant and equipment



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Distinguishing assets and expenses: The case of intangible assets



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- The case of internally developed intangible assets (IPSAS 31)...

Research costs = Expenses



Research as the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Development costs = Assets



Development as the application of research findings for the production of new or substantially improved products, systems, processes...

Distinguishing assets and expenses:

The case of financial interests in multilateral development banks



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- Interesting question: Do financial interests in multilateral development banks meet the recognition criteria of an asset or expense?
- Heterogenous international practice, i.e., no information (Chile), expense recognition (NZ), asset recognition (CH, CAN)

Financial interests in development banks =
Expenses?



Arguments / Indications of **expense** recognition:

- Limited practical / political opportunity of withdrawal / redemption;
- Assumption of liabilities after withdrawal;

Financial interests in development banks =
Assets?



Arguments / Indications of **asset** recognition:

- Voting power associated;
- Possibility of redemption;
- Future service potential;

Distinguishing assets and expenses: Capitalization thresholds



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- IPSAS **neither foresee nor explicitly forbid** the establishment of **capitalization thresholds** in combination with asset recognition. However, any capitalization threshold has to be in line with IPSAS principles.
- **Perspectives**, among others, include:
 - Efficiency and cost-benefit concerns);
 - Financial sustainability concerns.
- IPSAS **guiding principles** form:
 - IPSASs qualitative characteristics, e.g., namely faithful representation, which includes completeness, but also materiality and cost-benefit concerns;
 - The definition/distinction of and expenses;
 - Designated IPSAS relevant for the transaction;
 - The underlying nature of the transaction.



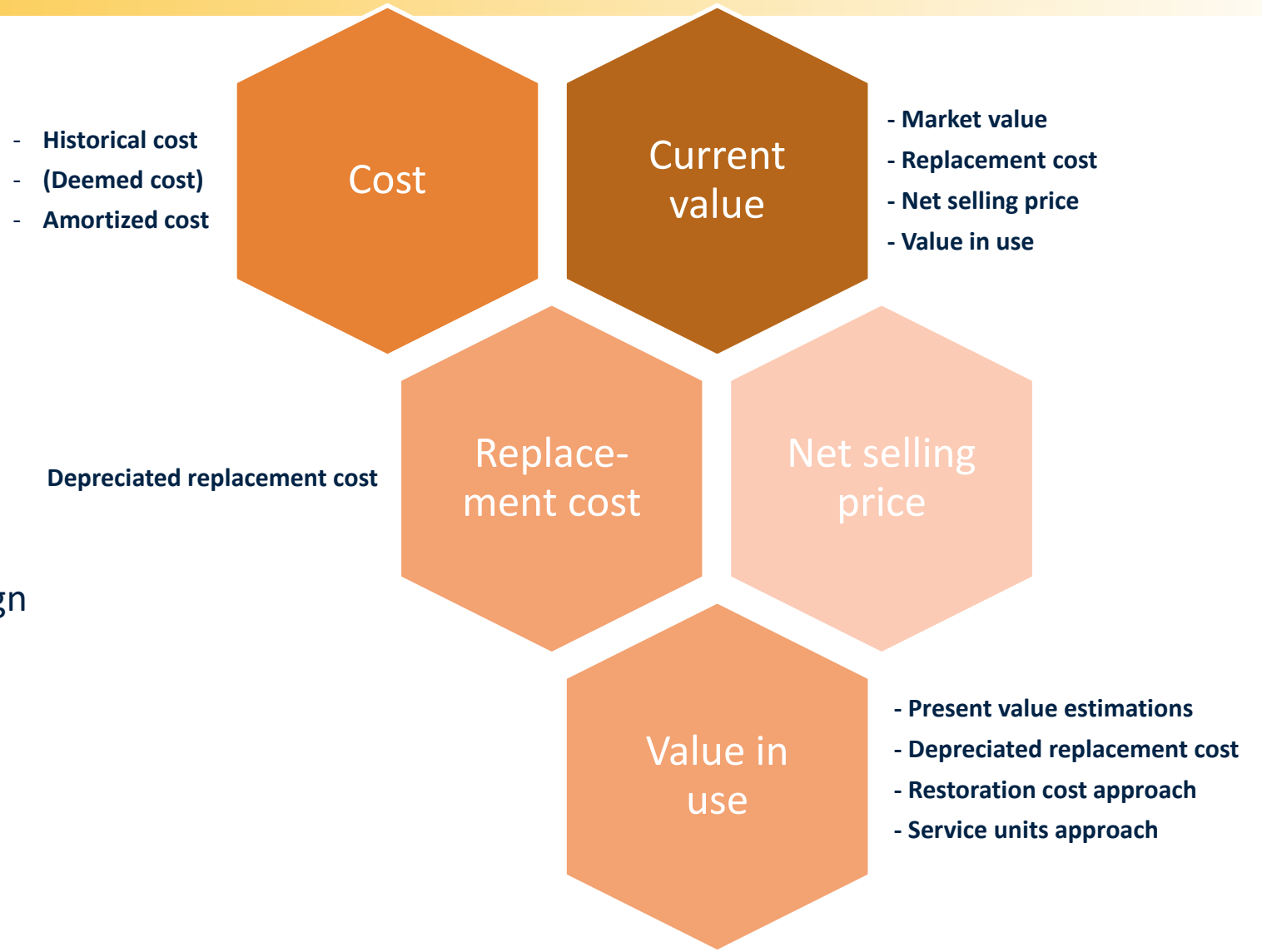
Entity level	Asset class	Capitalization threshold
Swiss Federal Level	Intangible Assets	100'000 USD
Swiss Federal Level	Buildings, Infrastructure Assets	1'000'000 USD
Swiss Federal Level	Furniture, fixtures, office equipment, motor vehicles	5'000 USD

Measurement universe for assets



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- **IPSAS** distinguishes between:
 - Initial measurement;
 - Subsequent measurement.
- **IPSAS** provides a wide range of measurement options, suitable for different asset types and transactions;
- **IPSASB** currently undertakes **Measurement project** to further align IPSAS Conceptual Framework with individual IPSAS on measurement options.



Asset measurement modalities / options: Historical cost approach



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Historical cost approach

- Allowed treatment under IPSAS 16 (Investment Property) & IPSAS 17 (Property, Plant and Equipment)
- Wide international use, including CH, US, CAN

Deemed cost (IPSAS 33)

Initial recognition

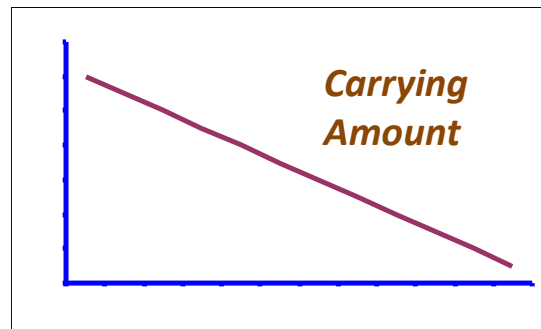
(Historical) cost
1.1.20x3

Including any costs attributable to bringing the asset to the location (import duties, cost of site preparation, delivery, handling and installation costs, etc.)



Depreciation over useful life

Depreciation: allocated on a systematic basis over its useful life (in most cases linear)



Subsequent recognition

Historical cost,
31.12.20X3



Impairment testing

IPSAS 21 & 26

Component approach

Historical cost: Depreciation rules



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Depreciation

- Systematic distribution of the depreciable value of the asset;
- Over the useful life as a function of the consumption of the future economic benefits or the future service potential.

Useful life (≠ Economic life)

- Period during which the entity expects to use the asset or, the number of units it expects to produce, or similar output the entity expects to obtain from the asset.
- Criteria to determine include:
 - Foreseen usage
 - Wear and tear
 - Technical and commercial obsolescence
 - Legal limits or restrictions on the use

Depreciation table, Swiss Public Sector Entities

Asset class	Sub-category	Useful life (in years)
IT	Software	5
IT	Hardware	3
Property, Plant and Equipment	Land	Permanent
Property, Plant and Equipment	Buildings	25 – 60
Property, Plant and Equipment	Roads	40 – 60
Property, Plant and Equipment	Bridges	40 – 60
Property, Plant and Equipment	Sewer sytems	40 – 60
Property, Plant and Equipment	Wastewater systems	15
Property, Plant and Equipment	Machinery and other	4 - 10
Intangible Assets	Patents, Goodwill, Concessions	5

Source: Swiss Public Sector Financial Reporting Advisory (2019)

Asset measurement modalities / options: Component approach



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Various **elements or components** of an asset may be identified and **depreciated separately** if:

- a) They have different pattern of the consumption of the future economic benefits or service potential; and
- b) They are significant relative to the total cost of the asset.

Component approach uses: Separated depreciation, impairment by components, regular replacements.



Components

A

Part A:

Depreciation method:
Units of production
method
Replacement: Every
700.000 units

B

Part B:

Depreciation method:
Straight-line method
Replacement: Every 5
years

No rules without exceptions...

Alternative measurement options under IPSAS 16 and IPSAS 17



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Subsequent Measurement Options

Property, Plant and Equipment / IPSAS 17

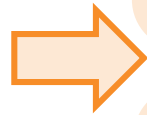
2 options
(models)

Which include:

Applied
uniformly for
entire class of
assets

*(class of assets, e.g.
office buildings, roads)*

IPSAS 17.42



Cost model

Revaluation model

Property, Plant and Equipment / IPSAS 16

2 options
(models)

Which include:

Applied
uniformly for
**entire
investment
property**

IPSAS 16



Cost model

Fair Value model

Last but not least

Asset management is not a pure valuation exercise...



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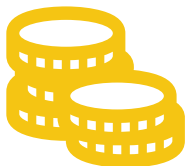
- A means to **scrutinize existing asset portfolio**;
- A **tool to ensure, plan and manage** maintenance activities.



- A tool to **calculate the full cost** of service delivery.
- An instrument to **optimally prize service delivery** (i.e., fees).
- A means to transparently discuss the **financing of service delivery**.
- A means to build **robust and resilient** service delivery models / structures.



- A means to strengthen the **balance sheet approach**.
- A means to discuss **concept and meaning of net assets / equity**.
- A means to **actively develop and shape** more resilient balance sheets.



- A means to **link assets** with **debt maturities**.
- A mean to change current liability structures.

