AAAG
AFRICAN ASSOCIATION OF ACCOUNTANTS GENERAL

AAAG FIRST TIME ADOPTION OF ACCRUAL ACCOUNTING GUIDELINES

July 2025

1.0 Introduction

1.1. The **AAAG First Time Adoption (AFTA)** of the Accrual Accounting Guide is a one-time application guidance primarily designed to assist member countries migrating from cash accounting to the accrual basis.

1.2. It can be used in circumstances where a Ministry, Department or Agency (MDA) either does not maintain a statement of financial position or has one that only provides limited information relative to the scope of these guidelines.

1.3. Therefore, the AFTA may also be useful for those already compiling financial statements on accrual or modified accrual bases. It also recognises accrual accounting reforms as a step towards increasing fiscal transparency through the implementation of International Public Sector Accounting Standards (IPSAS).

1.4. These guidelines do not substitute the IPSAS 33 Standard and do not replace the IPSAS requirements in the IPSAS Handbook, which is available at https://www.ipsasb.org. In the event of any conflict or inconsistency between this Guide and the standard, the provisions of IPSAS 33 shall take precedence.

1.1. The guide is intended as a non-authoritative reference to support the implementation and adoption of accrual-based IPSAS by member countries.

2.0 Scope of the guidance

2.1. The AFTA outlines five distinct stages in the adoption of International Public Sector Accounting Standards (IPSAS), as follows:

1. **Preparation for IPSAS Adoption:** Undertaking comprehensive transition planning well before formally adopting IPSAS 33.
2. **Initial Transition Period**: Migration from the existing basis of accounting to the preparation of the first accrual-based Opening Statement of Financial Position (OSFP).
3. **Opening Statement of Financial Position (OSFP):** Compilation and presentation of the inaugural opening Statement of Financial Position under accrual-based IPSAS.
4. **Intermediate Transition Period**: The period between the first accrual-based OSFP and the preparation of the first IPSAS-based OSFP.
5. **First IPSAS-Compliant OSFP**: Finalization and presentation of the opening balance sheet fully compliant with IPSAS requirements.

2.2. The AFTA is designed to support member countries in the preparation of general-purpose financial statements, with a focus on transitioning to the accrual basis of accounting. Specifically, it aims to facilitate the development of member country's first accrual-based Opening Statement of Financial Position sheet (OSFP).

2.3. By enhancing accounting maturity and promoting greater fiscal transparency, the guide seeks to ensure that financial statements provide the most accurate and reliable representation of a government's financial position and performance.

3.0 Preparation for IPSAS Adoption

3.1. IPSAS 33 offers a structured set of transitional provisions and exemptions designed to ease the burden on entities adopting accrual basis IPSAS for the first time. However, the International Public Sector Accounting Standards Board (IPSASB) strongly emphasizes that First Time Adopters should not rely solely on these relief measures. Instead, jurisdictions are encouraged to undertake comprehensive planning and capacity building well in advance of the formal adoption of IPSAS 33. Early preparation, through legal reviews, system upgrades, asset and liability verification, and staff training, ensures a smoother transition and minimizes risks during the implementation phase.

3.2. The implementation of IPSAS represents a complex, ambitious, and long-term public financial management reform that demands significant effort, sustained commitment, and substantial allocation of financial, human, and technical resources. Therefore, member countries transitioning to IPSAS must establish a clearly sequenced and phased strategy with a credible timeframe for implementation of accrual accounting prior to IPSAS adoption. The strategy for implementation should also take into account multiple factors.

3.3. The AFTA offers broader guidance on transitioning to accrual accounting that serves as a valuable roadmap for member countries, helping them lay to the groundwork for a successful and sustainable adoption of international standards. Accordingly, this section provides guidelines intended to support AAAG member countries in their transition to IPSAS, ensuring a strategic, coordinated, and sustainable pathway toward enhanced transparency, accountability, and public financial integrity.

3.4. **Develop a National IPSAS Implementation Strategy**

3.5. Each country preparing to adopt IPSAS should begin with a clearly defined, sequenced, and phased implementation strategy that outlines a credible and realistic timeframe for transitioning to accrual-based accounting and achieving full compliance. This

strategy should clearly define the major implementation phases, establish achievable milestones, and align closely with the country's broader public financial management (PFM) reform agenda. A well-structured roadmap not only ensures coherence and coordination across reform efforts but also enhances accountability and facilitates progress monitoring throughout the transition. The Association encourages member countries to refer to the AAAG Accrual IPSAS Implementation Guide as a tool to support this transition (https://aaag.org.zm/transition-guide-to-accrual-accounting/).

3.6. **Institutional Collaboration and Stakeholder Engagement**

3.7. A successful IPSAS transition depends on strong institutional collaboration and active stakeholder engagement across key government entities. The Ministry of Finance or its equivalent should lead implementation, with the Office of the Accountant General or its equivalent acting as the reform champion and central coordinator. Professional Accountancy Organizations (PAOs) play a vital role as educators, standard-setters, and advocates, helping to ensure high-quality, sustainable adoption. Legislators also contribute by providing oversight, enacting supportive legislation, and promoting transparency and public trust. Coordination with Treasury and Tax Authorities is essential to align accounting with revenue data. Equally important is the involvement of Supreme Audit Institutions (SAIs), which should be included in reform planning, trained in IPSAS, and engaged in validating the initial accrual-based opening balance sheet. This integrated approach strengthens reform ownership, consistency, and credibility across institutions.

3.8. **Appropriate Implementation Approach**

3.9. When adopting IPSAS, countries may typically choose between two implementation models: the phased approach or the 'big-bang' approach. The phased approach involves a gradual, staged implementation that closes identified gaps over time. It offers the advantage of early wins, progressive capacity building, and reduced reliance on external consultants, though it carries risks such as

extended timelines, reform fatigue, and potential loss of political momentum. IPSAS 33 supports this model by allowing exemptions for up to three years.

3.10. In contrast, the big-bang approach entails a comprehensive, one-time transition to IPSAS across all entities. While this may be necessary where legal frameworks require unified adoption, it is typically more resource-intensive and risk-prone, requiring all systems and institutions to be fully prepared before implementation. Due to its complexity and reliance on external expertise, the big-bang model is generally discouraged unless mandated by law. AAAG recommends the phased approach for its flexibility and sustainability.

4.0 Guiding Principles for Sequencing IPSAS Implementation

4.1 The successful implementation of IPSAS requires deliberate sequencing and preparation grounded in strategic sequencing, stakeholder ownership, legal clarity, sustained capacity development, institutional, and technical readiness. A phased, well-structured approach that takes into account local realities but is aligned with international standards offers the most practical and effective pathway to achieving accrual-based public financial reporting. The following guidelines provide detailed, step-by-step support to help AAAG member countries in organizing a structured, principle-based path to accrual IPSAS adoption and implement IPSAS in a phased manner.

4.2 **Foundational Principle: Account for Cash before Accruals**

4.3 The Cash Basis of Accounting Standard is not merely a transitional formality but a critical foundation for full accrual IPSAS adoption. High-quality cash-basis reporting strengthens fiscal discipline, enhances transparency, and builds the technical capacity needed for more complex accrual reforms.

4.4 AAAG member countries should therefore ensure robust cash-management systems; complete and accurate records of cash receipts, payments, and balances; a well-functioning treasury system; and reliable cash-flow statements compliant with Cash Basis IPSAS before introducing accrual concepts.

4.5 Basic accounting functions (recording, reconciliation, and reporting) must operate effectively, and where available, disclosures for non-cash assets and liabilities (e.g., fixed assets, borrowings, guarantees) should be mapped to future accrual recognition requirements. This approach bridges existing practices with IPSAS methodologies and provides a stable platform for a smoother transition to full accrual accounting.

4.6 **Focus on Core Reporting Objectives**

4.7 IPSAS reform objectives must aim to strengthen accountability by ensuring accurate, transparent, and accessible financial reporting that demonstrates how public funds are used. At the same time, these objectives must also enhance decision-making by providing timely, reliable, and comparable information for effective policy, planning, and budgeting. By integrating IPSAS principles, such as accrual-based reporting, fair value measurement, and full disclosure, into government systems, the reforms promote fiscal responsibility and informed governance.

4.8 In implementing IPSAS, AAAG member countries are encouraged to prioritize elements that directly strengthen accountability and support informed decision-making. Early efforts should focus on balance sheet items with the greatest fiscal significance. On the asset side, this includes fixed and infrastructure assets, which often represent the largest share of public resources. On the liability side, priority should be given to public debt and pension obligations, as they pose substantial fiscal risks. Addressing these areas early ensures that governments can better manage long-term financial sustainability and communicate a clearer picture of their financial position to stakeholders.

4.9 **Adapt to Jurisdictional Context**

When planning the implementation and sequencing, it is essential to consider jurisdictional circumstances to ensure a tailored and effective approach. For instance, in countries with a legacy of strong asset registries and accounting systems, these existing strengths should be leveraged to accelerate specific aspects of IPSAS adoption, particularly in areas like asset recognition and measurement. Recognizing such foundational capacities allows for a more efficient transition by focusing efforts on areas requiring greater development, such as accrual budgeting or consolidation practices. This context-sensitive approach ensures that implementation plans are realistic, resource-effective, and aligned with each country's institutional readiness.

4.10 **Phased Approach to IPSAS Implementation**

A structured, phase-based approach to IPSAS adoption will enable AAAG member countries to build capacity progressively, align with jurisdictional realities, and mitigate reform fatigue. This model ensures that countries transition systematically from foundational readiness to full accrual IPSAS compliance.

4.11 Under the IPSAS 33 framework, first-time adoption is structured into two distinct phases: the Preparation Phase and the Transition Phase. During the Preparation Phase, member countries can continue reporting under existing standards while conducting legal reviews, building institutional and human capacity, and initiating necessary system adjustments. This phase lays the groundwork for a smooth transition and can take as long as needed.

4.12 The subsequent Transition Phase allows up to three years of partial IPSAS compliance using permitted exemptions under IPSAS 33. During this period, MDAs must provide additional disclosures and maintain transparent documentation of exemptions used, as these factors may influence audit opinions and stakeholder confidence. Careful planning across both phases is essential to ensure a successful and sustainable IPSAS implementation.

4.13 **Use IPSAS 33 Judiciously During Transition**

IPSAS 33 offers a valuable transition mechanism for first-time adopters, allowing up to three years of partial compliance through temporary exemptions for complex areas such as fixed assets and pension liabilities. However, its use should be strategic and limited. The preparation phase should focus on reducing dependence on exemptions by building capacity and improving systems early on. The transition to accrual accounting requires gradual enhancements to the financial statements. An entity should only declare first-time adoption of accrual IPSAS when it is confident it can achieve full compliance within the allowed three-year timeframe. During the period of transition it is appropriate for the financial statements to

indicate that the entity is in the process of adopting accrual-basis IPSAS. This cautious approach supports credibility and smooth progression toward full IPSAS adoption.

4.14 **Legal and Regulatory Preparedness**

Legal and regulatory alignment is a critical foundation for the successful first-time adoption of IPSAS. In many countries, existing public sector financial reporting is governed by outdated laws that mandate cash-based or legacy accounting practices. Therefore, a comprehensive legal review should be undertaken to identify and address any legislative barriers. Reforms may include drafting and enacting laws that permit or mandate accrual accounting, formally adopt IPSAS as the national public sector accounting standard, and harmonize budget classifications with accounting records. Where appropriate, countries should consider introducing a dedicated Public Sector Accounting Law to institutionalize these reforms and ensure long-term sustainability and compliance.

4.15 **FMIS and Systems Modernization**

Modernizing Financial Management Information Systems (FMIS) is essential for effective IPSAS implementation. Systems must be capable of capturing data for both cash and accrual transactions, with full integration across accounting, budgeting, treasury, revenue, debt, and procurement functions. As part of the preparation for IPSAS adoption, countries should assess existing FMIS capabilities to identify gaps and plan for phased enhancements or the development of a new system where necessary. A compliant FMIS should include modules for asset management, commitment and obligation accounting, and support for consolidation and comprehensive financial reporting, ensuring the system can meet the demands of accrual-based IPSAS compliance.

4.16 **Capacity Building and Change Management**

Capacity building and change management are vital components of successful IPSAS adoption, as human resource limitations often pose

the greatest challenge to reform. A well-structured training strategy is essential to overcome resistance, build technical competency, and sustain momentum. This should begin with high-level awareness programs for ministers, parliamentarians, and senior officials to secure buy-in and communicate the benefits and timelines of the reform. Targeted technical training should be delivered to accountants, auditors, IT personnel, and FMIS users, focusing on IPSAS concepts, opening balance sheet preparation, and transitional disclosures. Countries are encouraged to develop national IPSAS curricula, establish certification programs, and promote Continuing Professional Education linked to licensing or career advancement to ensure ongoing capacity development beyond the initial implementation phase.

4.17 **Risk Management and Oversight**

Effective risk management and oversight are critical to ensuring a smooth and sustainable IPSAS adoption process. Common risks include reform fatigue due to extended timelines, excessive reliance on IPSAS 33 exemptions, qualified audit opinions during the transition, and underestimating the time required for legal and system reforms. To mitigate these challenges, countries should establish a dedicated Project Implementation Unit (PIU) inclusive of key PFM players with the Ministry of Finance to coordinate and monitor progress. Pilot implementations can help test readiness and refine approaches before full rollout. Additionally, implementing early-warning dashboards to track key risk indicators and involving external auditors early in the process will help identify issues proactively and reduce the likelihood of post-implementation setbacks.

4.18 **Communication and Stakeholder Engagement**

Clear communication and active stakeholder engagement are essential to building and maintaining support for IPSAS reforms. Transparent and consistent messaging helps foster public and institutional confidence throughout the transition. Countries should implement a multi-channel communication strategy, including

reform newsletters, stakeholder workshops, media briefings, and user-friendly infographics to explain progress and benefits. Equally important are robust feedback mechanisms, such as dedicated hotlines or digital platforms for inquiries, and the appointment of internal reform champions within each ministry or agency to facilitate two-way communication and address concerns promptly. This inclusive approach helps ensure stakeholder alignment and minimizes resistance during implementation.

4.19 **Monitoring, Evaluation, and Adaptive Learning**

Robust monitoring, evaluation, and adaptive learning mechanisms are vital for managing progress and ensuring accountability during IPSAS implementation. Countries should develop detailed work plans with clear milestones and track key performance indicators such as the enactment of legal reforms, number of personnel trained, deployment of FMIS modules, completion of the opening balance sheet (OBS), and audit outcomes. Strong governance structures are equally important and should include a high-level Steering Committee, ideally chaired by the Minister or Permanent Secretary or Accountant General, a dedicated Technical Implementation Team, and an independent oversight body, such as the Auditor General, to conduct regular progress reviews and recommend course corrections as needed.

5.0 Initial Transition Period and Application of IPSAS 33

5.1. IPSAS 33 is intended to guide the final steps of adoption, not to replace early preparation. It does not cover the entire period of IPSAS implementation but only provides the starting point and end point for accounting for assets, liabilities, revenue and expenses for the first time in terms of Accrual Basis IPSAS.

5.2. Therefore, member countries should only apply IPSAS 33 when most of the planning and preparation is complete and they are in the final stages of transitioning to accrual basis IPSAS.This means the key groundwork mentioned in the preceeding section such as legal reviews, system upgrades, staff training, etc, should already be in place.

5.3. **Date of Adoption of IPSASs**

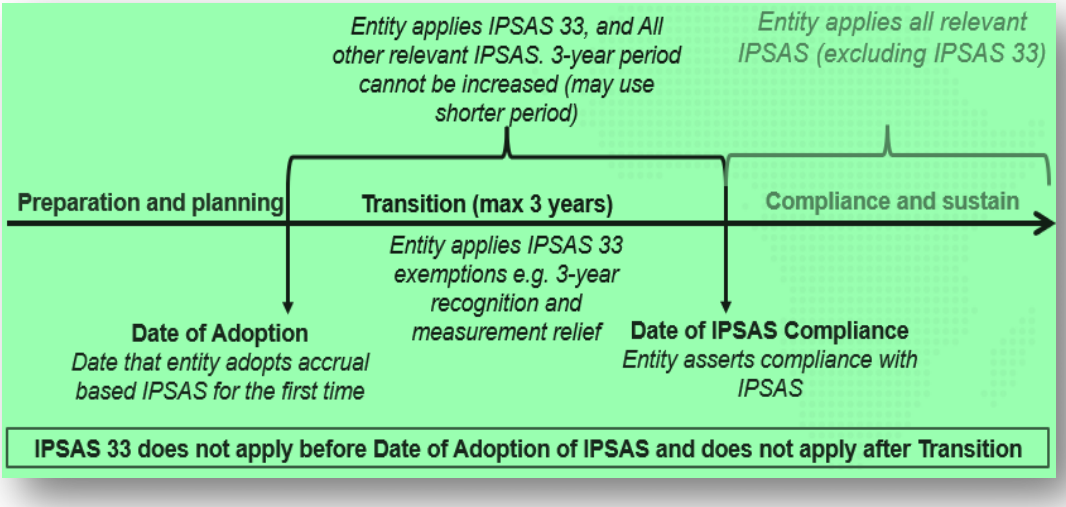
5.4. The date of adoption of accrual basis IPSAS is the beginning of the reporting period for which a member country first adopts accrual basis IPSAS and presents its first Transitional IPSAS Financial Statements or its first fully IPSAS-compliant financial statements. For example, if the financial statements are prepared for the year ending 30 June 20X2, the date of adoption is 1 July 20X1, and the opening balance sheet must be presented as at that date. Similarly, if the reporting period ends on 31 December 20X2, the date of adoption is 1 January 20X2, and the opening balance sheet is presented as at 1 January 20X2. This ensures consistency and clarity in reporting from the start of the adoption period.

5.5. If on first adoption a member country utilizes the transitional exemptions provided under IPSAS 33, thereby not fully meeting all IPSAS requirements, it may not make an explicit and unreserved statement of compliance with IPSAS until those exemptions have expired or the relevant items are fully recognized, measured, presented, and disclosed in accordance with the applicable

standards. Financial statements must meet all IPSAS requirements to be described as compliant with IPSAS.

5.6. Member countries shall only apply the principles of IPSAS 33 for a maximum of three years from the official date of adoption of Accrual Basis IPSAS (i.e., the start of the reporting period in which the first transitional or full IPSAS financial statements are presented). This period ends once the entity fully complies with all applicable accrual IPSAS standards and presents its First IPSAS-Compliant Financial Statements**,** known as the Date of IPSAS Compliance**.** After this point, exemptions granted under IPSAS 33 can no longer be used.

Figure 1 below illustrates the timeline for the applicability of IPSAS 33.



5.7. Transitional IPSAS financial statements are the annual financial statements prepared by a member country as it transitions to accrual basis IPSAS while making use of exemptions under IPSAS 33 that affect fair presentation and prevent full compliance. During this period, a member country cannot make an explicit and unreserved statement of compliance with accrual IPSAS until the exemptions expire or the affected items are fully recognized, measured, presented, and disclosed in line with applicable standards.

5.8. These transitional statements typically follow previous reporting under cash-basis IPSAS or other non-IPSAS standards (with or without partial IPSAS compliance) and serve as an interim step until the entity can prepare fully IPSAS-compliant financial statements.. Member countries must not describe their financial statements as IPSAS-compliant unless they fully meet all IPSAS requirements.

5.9. The first IPSAS financial statements are the first annual financial statements in which a member country can make an explicit and unreserved statement of full compliance with accrual basis IPSAS. If the member country does not use any of the transitional exemptions under IPSAS 33 that affect fair presentation or compliance, then its first financial statements prepared after adopting accrual IPSAS will also qualify as its first IPSAS financial statements. This marks the point at which the entity meets all applicable IPSAS requirements without reliance on transitional reliefs.

6.0 Opening Statement of Financial Position on Adoption of IPSASs

6.1 IPSAS 33 requires a first-time adopter to prepare and present an opening statement of financial position (OSFP) at the date of adoption of IPSASs. This section provides detailed guidelines to aid preparation of the OSFP.

6.2 **Key Considerations for inclusion or exclusion of items in the OSFP**

In preparing the first accrual-based Opening Statement of Financial Position (OSFP), MDAs are encourage to apply professional judgment to determine which line items to include, based on pragmatic and context-specific considerations. The following criteria is provided to help MDAs decide whether certain assets and liabilities should be initially included or excluded from the OSFP. These considerations help ensure that initial reporting is both meaningful and achievable.

6.3 **Complexity**

Some items such as financial instruments may involve high levels of technical complexity. If simplified recognition or measurement approaches are not available or feasible, MDAs may choose to defer inclusion of such items until capacity is built. In this regards, they are encouraged to prioritize items that can be more reliably recognized and measured.

6.4 **Cost-Effectiveness of Fair Representation**

When the cost of obtaining reliable quantity or valuation data is disproportionately high compared to the value or usefulness of the information (e.g., for heritage or internally generated intangible assets), reporting entities may consider excluding these items in the initial OSFP. The aim is to balance informational benefit with the practical cost of preparation.

6.5 **Maturity and Time Pattern**

Items with a short remaining useful life or nearing settlement (e.g., assets to be disposed of or liabilities due for payment shortly after the reporting date) may not offer lasting value in the OSFP and could

reasonably be excluded. The focus should be on items with significant ongoing fiscal implications.

6.6 **One-Off Effects and Items in Transit**

Items expected to be derecognized soon after the OSFP date (e.g., temporary investments or transferred assets) need not be included, especially if they would distort the comparability or usefulness of the initial accrual position.

6.7 **Materiality**

Assets or liabilities considered immaterial to the entity's overall financial position may be excluded. However, this requires informed judgment. Accountants General, in consultation with auditors or oversight bodies, are encouraged to apply materiality threshold tailored to the their country context to determine appropriate thresholds and ensure materiality assessments align with public sector expectations and user needs.

6.8 **Existence Uncertainty**

Where ownership, control, or the very existence of an item is uncertain, such as in the case of disputed land titles, heritage assets, or intangible assets, MDAs may defer recognition until the status is clarified. The transition period should be used to investigate and resolve these uncertainties.

6.9 **Presentational Sensitivity**

Some items may be sensitive in nature (e.g., military equipment, legal cases, or state guarantees). MDAs should assess whether inclusion poses confidentiality or national security concerns. In such cases, disclosures may be aggregated or delayed, provided this is justified and disclosed.

6.10 **Case-by-Case Judgement**

These criteria are not meant to be ranked or rigidly applied. Often, multiple criteria may reinforce or conflict with one another. Accountants General must use professional judgment, considering:

a) The nature and purpose of the OSFP,
b) The availability and reliability of supporting data,
c) Consultation with key stakeholders (e.g., auditors, treasury, ministries),
d) The need to build credibility and usefulness of the first accrual-based financial position.

6.11 In preparing the OSFP, MDAs should strive for the most comprehensive and reliable coverage of assets, liabilities, and significant transactions and events, applying the key considerations criteria thoughtfully while ensuring cost-effectiveness. This should be achieved progressively over the transition period, from the first accrual-based OSFP to the fully IPSAS-compliant version. A consistent and systematic presentation of the government's financial position and performance is essential to meet the diverse information needs of stakeholders. To support this, the guidance includes a recommended template with minimum headings of elements of financial statements in the initial accrual-based OSFP (Appendices 1 and 2).

7.0 Preparing the Opening Statement of Financial Position

6.1. The OSFP serves as the starting point for accrual-based accounting and the basis for carrying the balances of all assets and liabilities to the transitional IPSAS financial statements. As part of first-time adoption of accrual basis IPSAS, a MDAs must prepare and present an Opening Statement of Financial Position (OSFP) as at the date of adoption.

6.2. On the date MDAs adopt accrual basis IPSAS, it must apply IPSAS standards retrospectively. This means the MDA should treat past transactions and balances as if IPSAS had always been in use, ensuring consistency in financial reporting, unless specific exemptions in IPSAS 33 allow for a different approach.

6.3. The same accounting policies should consistently be used in the OSFP and across all periods presented unless MDA opts for the transitional relief period for the recognition and/or measurement of assets and/or liabilities.

6.4. MDAs must apply the most current IPSAS standards in effect at the adoption date and may adopt newly issued IPSAS if early adoption is permitted.

6.5. To the extent that a MDA has not opted for the transition exemptions in IPSAS 33, it must follow key IPSAS requirements to ensure proper transition in its opening statement of financial position. Specifically, it should:

a. Recognize all assets and liabilities that IPSAS standards require;
b. Exclude any items as assets or liabilities if IPSAS does not permit their recognition;
c. Reclassify previously recorded items to reflect their correct classification under IPSAS (e.g., from one type of asset or liability to another, or to a different component of net assets/equity); and

d. Measure all recognized assets and liabilities in accordance with IPSAS measurement rules.

6.6. These steps ensure a clean and accurate starting point for accrual-based financial reporting.

6.7. When adopting IPSAS, MDAs accounting policies may differ from those used under its previous accounting framework. As a result, adjustments may be required to reflect past transactions, events, or conditions in line with IPSAS standards. These adjustments must be recorded in the opening balance of accumulated surplus or deficit or another appropriate component of net assets/equity at the start of the adoption period.

6.8. The MDA must recognize these adjustments in the earliest reporting period presented to ensure consistency and comparability in its financial statements.

Example 1: Recognition of asset as opening balance on first adoption during transitional period

Under the transitional provisions for first-time adoption, the Department of Water Supply has measured and recognised property, plant and equipment at the opening balance sheet date. The total amount recognised is CU150,000. The Asset has an accumulated depreciation of CU50, 000.

Journal entries

To recognize the opening balance of asset (as gross and total accumulated depreciation), the property, plant and equipment account will be debited, accumulated depreciation account credited and the accumulated surplus or deficit credited. The treatment applies for assets discovered to be in existence subsequent to the date of transition.

	DR	CR

Property, plant and equipment	150,000	
Accumulated depreciation		50,000
Accumulated surplus or deficit		100,000

Example 2: Correction of error in the accumulated surplus or deficit during transitional period

At the transition to accrual accounting, sports equipment was brought into the opening balance sheet at CU150,000, net of accumulated depreciation of CU20,000. In the following year, the Department of Sports identified that both the equipment cost and its depreciation had been overstated; these were therefore revised to CU120,000 and CU16,000 respectively, correcting prior-period overstatements of CU30,000 and CU4,000.

Journal entries

To record adjustment to the opening balance of total sports equipment

To adjust the opening balance of total sports equipment, the accumulated surplus or deficit and the accumulated depreciation account will be debited and the sports equipment account will be credited.

	DR	CR	
Accumulated surplus or deficit	30,000		
Accumulated depreciation	4,000		
Sports Equipment		34,000	

Example 3: Adjusting for Asset Recognition under IPSAS

The Ministry of Infrastructure previously reported financial statements under a cash basis of accounting. In its last reporting period, it did not recognize infrastructure assets (e.g., roads, bridges) in its financial records. Upon adopting IPSAS, these assets must now be recognized

and measured in accordance with IPSAS 45 Property, Plant, and Equipment.

The ministry has:

- Identified infrastructure assets valued at **CU25,000,000** (fair value).
- No prior entry or record of these assets existed under the previous cash-basis system.
- The adoption date is **1 January 20X3**.
- The opening balance sheet date is **1 January 20X3**.
- The previous accumulated surplus was **CU10,000,000** (cash-basis).

Solution

Step 1: Recognize the Infrastructure Asset

Under IPSAS 45, infrastructure assets that meet recognition criteria (control, future economic benefit or service potential, reliable measurement) must be recognized.

Journal Entry at 1 January 20X3:

	DR	CR
Infrastructure Assets (PPE)	25,000,000	
Accumulated Surplus		25,000,000

This entry reflects the initial recognition of infrastructure assets at fair value and the corresponding adjustment to the net assets.

Step 2: Reflect in the Opening Statement of Financial Position

The Ministry prepares its opening IPSAS balance sheet as at 1 January 20X3**:**

Statement of Financial Position (Extract) as at 1 Jan 20X3	
Description	**Amount (CU)**
Assets	

Infrastructure Assets	25,000,000
Cash and Cash Equivalents	10,000,000
Total Assets	35,000,000
Net Assets/Equity	
Accumulated Surplus (adjusted)	35,000,000
Total Equity and Liabilities	35,000,000

Step 3: Disclosure

In the notes to the financial statements, disclose:

- The nature and reason for the adjustment and the fact that the asset was previously unrecognized.
- The basis for measurement (e.g., fair value at date of adoption).
- That this adjustment has been reflected directly in the opening balance of accumulated surplus in line with IPSAS 33.

Explanations

- Adjustments arising from first-time IPSAS adoption are made directly to net assets (not through the statement of financial performance).
- These adjustments ensure the comparability and completeness of financial information from the first IPSAS reporting period onward.
- Full disclosures are required to maintain transparency and auditability.

8.0 Identifying accrual impacts transactions in the Preparation of OSFP

8.1. Implementing accrual accounting requires a shift from recognizing transactions only when cash changes hands to recognizing revenues and expenses when they are earned or incurred. To ensure a successful transition and accurate preparation of the Opening Statement of Financial Position (OSFP), MDAs must systematically identify all transactions with accrual impact and document the required adjustments. This process is best supported through the development of an Accrual Impact Sheet; a standardized template to record every item that requires an accrual adjustment. This sheet will track the transition from cash-based to accrual-based reporting and form the basis of the opening balances.

8.2. Accrual Impact Sheet

The Accrual Impact Sheet is a structured tool designed to identify and record transactions or balances that were not captured under cash-based accounting, ensuring the complete and accurate recognition of both current and non-current assets and liabilities. It supports the preparation of opening accrual-based financial statements in line with IPSAS requirements and promotes transparency, audit readiness, and consistency in financial reporting by providing a clear, standardized record of all necessary accrual adjustments.

8.3. The Accrual Impact Sheet should capture detailed information for each item with accrual implications, including:

Field	Description
Date	The date the accrual transaction was identified or is deemed to occur.
Description	A brief narrative of the transaction or event (e.g., utility bills unpaid, staff benefits due).
Source	Indicate whether the information is from HQ, a ministry, department, or unit.

Amount	The estimated or known financial value of the accrual.
Account Affected	The specific financial statement account impacted (e.g., accounts receivable, accrued liabilities, provisions).
Financial Statement Impact	State whether the impact is on the balance sheet, income statement, or both.
Justification	Provide a rationale or explanation for the accrual (e.g., services rendered but not yet invoiced).
Notes	Any assumptions, valuation methods, or sources of information used in estimating the accrual.

8.4. **Scope and Approach**

The scope and approach for identifying accrual adjustments must be comprehensive, covering all ministries, departments, and reporting agencies to ensure no transactions or balances are overlooked. It should also be collaborative, involving review and validation by relevant stakeholders and technical teams to guarantee accuracy and completeness. Finally, the process must be tiered, differentiating between information already available at headquarters and data that must be gathered from other units, so that resources are effectively allocated and all necessary details are captured for the transition to accrual-based reporting.

8.5. Information should be segregated into two main sources. First, compile Headquarters Data, which includes centrally available information such as government-wide cash receipts and payments, centrally managed loans, and large-scale asset registers for infrastructure or fleet.

8.6. Second, gather detailed schedules from each Ministry, Department, and Agency (MDA)**,** covering items like unbilled or uncollected

revenues (such as earned service fees not yet invoiced), expenses incurred but not yet paid (for example, utilities or vendor invoices received after period end), employee benefits (including accrued leave or pension obligations), inventory on hand that is not reflected in cash records, and advances and prepayments (such as grants paid in advance but not yet earned).

8.7. **Preparation Process**

The preparation process begins with a thorough review of past transactions and contractual obligations to identify items that qualify as assets or liabilities under IPSAS. Next, standardized templates and guidance are distributed to ministries and departments to collect the necessary accrual data. Once submissions are received, they are reviewed and certified for completeness, with material balances validated against supporting documentation. All validated information is then consolidated into a master Accrual Impact Sheet, which serves as the foundation for preparing opening accrual-based balances and recording the required journal entries. Throughout the process, detailed schedules and documentation are maintained to justify each entry, ensuring audit readiness and providing a clear reference for future reviews.

8.8. **Key Accrual Categories**

When identifying accrual adjustments, each MDA should review its prior period cash transactions to determine items that require recognition under accrual accounting. This includes receivables for services rendered or goods delivered by year-end but not yet invoiced or collected and payables, which are expenses incurred by year-end for which invoices have not been received or payments made. Employee-related liabilities such as unpaid salaries, accrued leave, and pension obligations earned up to the transition date must also be captured. Any prepayments and advances**,** like multi-year contracts or prepaid rent that cover future periods, should be recorded as

assets. For inventory, ensure that year-end stock quantities and unit costs are identified even if payment occurs later. Under Property, Plant, and Equipment (PPE), assets acquired in prior years but previously expensed—such as road networks or government buildings—must now be capitalized. All borrowings and debt**,** including loans or bonds outstanding at the reporting date and any accrued but unpaid interest, should be recognized as liabilities. Finally, note any contingent liabilities and guarantees, like pending lawsuits or state-backed guarantees, that are likely to become actual liabilities. By systematically reviewing these categories, MDAs and centralized functions can ensure a complete transition from cash-based to accrual-based reporting.

8.9. **Validation and Reconciliation with Supporting Documentation**

For each accrual line, collect the necessary supporting evidence such as vendor statements, contract schedules, payroll summaries, and asset inspection reports and reconcile these accrual estimates against the cash-based ledger to prevent double counting or omissions. Where legacy balances in the FMIS are outdated or unsupported, cleanse or adjust them before finalizing the accrual entries. This thorough validation and reconciliation process ensures that opening balances accurately reflect the true financial position.

8.10. **Update Continuously through the Transition Period**

As MDAs prepare for the first fully IPSAS-compliant Statement of Financial Position, they must continuously refine the Accrual Impact Sheet to capture adjustments, including any new accruals or reclassifications until the date the first IPSAS financial statements are finalized.

9.0 Identifying Fixed Assets in the Opening Statement of Financial Position

9.1. When preparing the Opening Statement of Financial Position, it is essential to compile a comprehensive and reliable Fixed Asset Register (FAR) that accurately reflects all assets owned by the MDAs. Fixed assets such as land, buildings, infrastructure, and equipment often represent a significant portion of the public sector's asset base and require careful identification, valuation, classification, recording, and presentation.

9.2. **Fixed Asset Identification**

IPSAS implementation efforts must begin by identifying every fixed asset such as land, buildings, infrastructure, and equipment across all MDAs. Public sector assets often span wide geographical areas, this step may require consulting existing records, soliciting input from unit heads, and reviewing legacy inventories.

9.3. Each MDA should first submit a preliminary inventory of assets under its control. This list must include land parcels, buildings, major infrastructure (e.g., roads, bridges), vehicles, machinery, and any other capital items. Only those assets whose legal ownership vests with the MDAs should be considered. Where records exist, note the acquisition date, cost (or estimated fair value), and location for each asset. The aim is to assemble a master list of assets in use as of the adoption date, ensuring that no asset with MDAs ownership is overlooked.

9.4. **Physical Verification**

In many cases, acquisition dates or original costs may be incomplete or missing from historical records. To address this, organize a physical verification exercise. Each department should form a dedicated verification team or, if necessary, hire an external specialist to visit sites and confirm the existence, condition, and location of each asset. Verification should follow the principle of materiality focusing on

higher-value and mission-critical assets first. For Lower-value items may be aggregated to conserve resources or rely on available secondary evidence combined with unit-level certifications. An inter-departmental committee can oversee this process, ensuring that data collected by individual departments are consolidated into a central FAR. Cross-check all physically verified information against any existing records to identify discrepancies, duplicate listings, or obsolete entries.

9.5. **Data Collection and Consolidation**

Use a standardized data-capture template to collect asset details from each unit. Required fields should include:

a) Asset description (e.g., "District Hospital Building")
b) Location and department responsible
c) Acquisition or construction date (if known)
d) Cost or deemed cost (see below)
e) Estimated useful life and depreciation method
f) Current condition or impairment indicators

9.6. Once each department has completed its portion, the Accountant General's office should merge these entries into a master FAR, eliminating duplicates and flagging any missing or unclear data for follow-up.

9.7. **Assumptions in the absence of complete information**

It is common to encounter assets with missing acquisition dates or costs especially heritage buildings or long-standing infrastructure. In such cases, make reasonable assumptions to derive a "deemed cost" for accounting purposes. For example:

a) If only the year of placement into service is known (e.g., "before 2010"), estimate the acquisition year as midway in that range (e.g.,

2005) and apply an appropriate inflation index or market rate to approximate cost.

b) If the acquisition date is known but cost is unavailable, and the asset is still in use, estimate cost by applying a current market value or indexed valuation to the assumed date of acquisition.
c) If neither date nor cost is known but useful life has not yet expired, consult similar asset classes or local market data to estimate both age and cost.
d) In all instances, clearly document the assumptions, methodologies, and sources used in deriving these estimates. These disclosures are critical for audit and future revaluations.

9.8. **Leasehold Assets**

For leasehold properties, record each asset separately and note the terms of the lease such as remaining lease period, rental obligations, and renewal options. Treat these assets as right-of-use assets under IPSAS 43 (Leases), recognizing both the asset and corresponding lease liability in the opening Statement of Financial Position.

9.9. **Cleansing and Validation**

Before finalizing the FAR, review and "cleanse" the data to remove any obsolete or non-existent items (e.g., equipment that was scrapped but never removed from records). Reconcile the FAR with any outstanding capital work-in-progress or commitments that might not yet be capitalized but will become fixed assets once complete. This step helps prevent outdated information from being included in the opening Statement of Financial Position.

9.10. **Documentation and Audit Readiness**

Maintain all supporting schedules, photographs, inspection reports, and valuation reports in a centralized repository. These documents justify the inclusion, cost, and useful life of each asset and provide an audit trail. Attach a summary of valuation methods and assumptions

in the notes to the opening statement of financial position, ensuring transparency and compliance with IPSAS disclosure requirements.

9.11. Finally, consolidate the verified and cleansed information into the master Fixed Asset Register, classifying each asset by category, location, acquisition date (or deemed date), cost (or estimated value), and useful life assumptions. This register will form the basis for recognizing property, plant, and equipment on the opening Statement of Financial Position, ensuring that the switch to accrual accounting captures a reliable and transparent view of the MDAs long-lived resources.

10.0 Identifying Liabilities in the Opening Statement of Financial Position

10.1. When preparing the opening statement of financial position, it is crucial to compile a comprehensive Schedule of Liabilities that accurately captures all obligations owed to external and internal parties. Liabilities—such as payables, borrowings, employee-related obligations, and contingent liabilities—represent significant fiscal responsibilities and require systematic identification, verification, valuation, and disclosure. The following steps outline a practical approach:

10.2. Liability Identification

Identification of liabilities should begin by collecting all available records of liabilities as of the adoption date, ensuring each ministry, department, and unit provides a comprehensive inventory of obligations under its control. This inventory should include accounts payable such as invoices for goods or services received but not yet paid and accrued expenses, for example utilities bills, vendor invoices received after period end, and any accrued interest.

10.3. It must also cover borrowings and debt, including outstanding loan principal, bonds, and any unpaid interest or fees. Employee-related obligations such as unpaid salaries, accrued leave, and pension or other post-employment benefit liabilities should be identified, along with advances received (for instance, grants or prepayments from development partners for projects not yet delivered).

10.4. Additionally, any contingent liabilities or guarantees like pending legal claims or performance bonds must be noted. Only include obligations that represent a legal or constructive obligation to transfer resources. For each liability, record the creditor or counterparty, the original contractual terms (such as loan agreements), the maturity or settlement date, and any applicable interest or penalty provisions. Where possible, cross-check these entries against existing FMIS data

and departmental ledgers, and engage the relevant departments to verify completeness and accuracy, thereby laying a solid foundation for the first IPSAS-compliant opening Statement of Financial Position.

10.5. Documentation and Verification

When liability records are incomplete or dispersed across multiple units, it is essential to organize a structured verification exercise to ensure all obligations are captured. First, each MDA should establish an internal verification team tasked with reviewing trial balances, outstanding invoices, payroll summaries, loan schedules, and contract documents to identify any unrecorded liabilities.

10.6. For material items such as significant borrowings or inter-governmental obligations, obtain external confirmations directly from lenders, pension administrators, or other counterparties to validate balances. Apply a materiality focus by prioritizing the verification of high-value or high-risk categories such as long-term debt and pension liabilities while using practical sample checks for smaller balances to manage effort and resources. By combining internal reviews with external confirmations and materiality judgments, MDAs can develop a complete and reliable liability schedule for their first IPSAS-compliant opening Statement of Financial Position.

10.7. Data Collection and Consolidation

Use a standardized data-capture template to collect liability details from each unit. Required fields should include:

a) Liability Description (e.g., “Vendor Payable – Office Supplies”)
b) Creditor/Counterparty (e.g., “XYZ Construction Ltd.”)
c) Date Incurred or Contracted (e.g., “15 March 20X1” for a loan agreement)
d) Original Amount and Currency (e.g., “CU 5,000,000 loan”)
e) Outstanding Balance as at Adoption Date (including accruals for interest)

f) Maturity or Settlement Terms (e.g., "Principal due 31 December 20X5; interest 5% per annum")
g) Liability Classification (e.g., "Current" if due within 12 months; "Non-Current" otherwise)
h) Supporting Documentation (e.g., "Loan agreement reference No. 12345")

10.8. **Once** each MDA submits its information, the Accountant General's office should consolidate these entries into a master Liabilities schedule, resolve any duplicates, and flag unclear or missing data for follow-up.

10.9. **Classification and Measurement**
Liabilities should be classified and measured to reflect their timing and valuation under IPSAS. Obligations due within 12 months must be classified as current liabilities, while all other obligations are non-current. Most liabilities, such as borrowings and financial obligations, are measured at amortized cost using the effective interest method, which recognizes interest expense over the life of the instrument.

10.10. Accrued expenses such as utilities, vendor invoices, or other operating costs incurred but not yet paid are measured at the best estimate of the amount required to settle the obligation at the reporting date.

10.11. Employee-related benefits require different treatment depending on their timing: short-term liabilities like unpaid wages or accrued leave are recognized at their undiscounted amounts, whereas long-term obligations, such as pension liabilities and other post-employment benefits, should be measured using actuarial valuations. If actuarial expertise is unavailable, standardized estimates based on historical service cost and demographic assumptions may be used temporarily.

10.12. Contingent liabilities, like pending legal claims or guarantees, are recognized only when it is probable that an outflow of resources will occur and the amount can be reliably measured; otherwise, they must be disclosed in the notes to the financial statements, including details on the nature of the contingency, the likelihood of an outcome, and the possible financial impact. This approach ensures that the entity's liabilities are presented faithfully and transparently in line with IPSAS requirements.

10.13. **Cleansing and Reconciliation**

Before finalizing the schedule of liabilities, reconcile it with the cash-based ledger to identify any obligations that have been incurred but not yet recorded, as well as any liabilities that have already been settled yet still appear in legacy FMIS records. Remove any extinguished obligations to prevent overstating liabilities. Verify outstanding debt schedules such as loan balances and interest accruals against lender confirmations and amortization tables to ensure principal and interest figures are accurate. Additionally, coordinate with procurement and legal units to incorporate any newly signed contracts or guarantees that impose fresh obligations, updating the register accordingly to reflect the most current liability position.

10.14. **Disclosure and Audit Readiness**

Maintain detailed supporting schedules for each liability category such as loan agreements, vendor statements, payroll registers, and actuarial reports in a centralized repository to ensure audit-ready documentation. In the notes to the opening statement of financial position, disclose significant assumptions (for example, interest rates and employee benefit valuation methods), the terms and conditions of borrowings, guarantees, or contingent liabilities, and the methodologies used to estimate incomplete data or apply any transitional exemptions. These disclosures should fully comply with

IPSAS requirements and offer transparency to external auditors and stakeholders.

11.0 Initial Measurement and Hierarchical Valuation Approaches

11.1. At the date of initial recognition on the first accrual-based OSFP, assets and liabilities should be measured using methods that facilitate ongoing accrual accounting in future periods. For non-financial assets, a hierarchical measurement approach is recommended. First, where feasible, use historical values such as acquisition or construction cost less accumulated depreciation when reliable records exist and can be obtained at reasonable cost and effort. If historical values are unavailable or prohibitively expensive to determine, adopt alternative approaches (for example, current value) as "deemed cost." Deemed cost is a reliable valuation that accurately represents an asset's or liability's historical value at initial recognition when actual acquisition or construction cost is unavailable. For example, intangible assets may be valued at back-dated indexed current values to reflect their cost at acquisition. Land can be measured using local average costs derived from comparable transactions, while tangible assets such as buildings or infrastructure may use a similarly indexed current value. Importantly, selecting deemed cost as a proxy does not require subsequent revaluation at current value it simply provides a practical substitute for the original cost at the date of recognition.

11.2. In some cases such as certain heritage assets with no comparable market transactions MDAs may opt to disclose relevant information rather than recognize the asset in the first OSFP.

12.0 Adjustments for Revenue Transactions

12.1. Recognizing Earned Revenue or receivables

When transitioning from cash-basis to accrual-basis accounting, it is essential to adjust revenue figures so that they reflect the period in which the revenue was actually earned, rather than when cash was received. Under cash-basis accounting, revenues are recorded only when cash is received. By contrast, accrual-basis accounting records revenue at the point of earning, even if payment is subsquently received.

12.2. To recognize earned revenue during this conversion, start by identifying all revenue transactions that occurred during the period but have not yet been recorded under the cash-basis system. For each of these transactions, determine the appropriate amount to record as accounts receivable. Then, make journal entries that debit Accounts Receivable and credit Revenue, thereby reflecting the earned revenue that has not yet been collected in cash.

Particulars	Debit	Credit
Account Receivables A/c	XXX	
Revenue A/c		XXX

12.3. As an illustration of this process, consider an MDA with CU2,080,000 in cash-basis revenue for the period, ending accounts receivable of CU351,000, and beginning accounts receivable of CU945,000.

12.4. To calculate accrual-basis revenue, take the cash-basis revenue and add the ending accounts receivable, then subtract the beginning accounts receivable. In this example, accrual-basis revenue would equal CU2,080,000 + CU351,000 - CU945,000, which results in

CU1,486,000. This adjustment ensures that only the revenue actually earned within the reporting period is included, regardless of when cash moves.

12.5. **Handling Unearned Revenues and Advances**

12.6. Another important area to address during transition is unearned revenue (sometimes called deferred revenue), which arises when customers pay in advance for goods or services that have not yet been delivered. Under cash-basis accounting, any payment received is recorded immediately as revenue; under accrual accounting, however, these prepayments are treated as liabilities until the company delivers the promised goods or performs the agreed-upon services.

12.7. To make the conversion adjustment, identify all cash-basis entries where payments were recorded as revenue but represent advances. For each of these, reverse the revenue entry and instead credit a liability account typically “Unearned Revenue” or “Deferred Revenue.” Once the period in which the goods or services are delivered arrives, recognize the appropriate portion of revenue by debiting the Unearned Revenue liability account and crediting Revenue. This ensures that revenue is not overstated in periods before performance obligations are met.

12.8. **Adjusting for Accrued Revenues or Receivables**

12.9. Finally, accrual accounting also requires recording accrued revenues or receivables, amounts that the MDA has earned but not yet billed or collected. Under cash-basis accounting, these amounts would simply be ignored until cash is received; under accrual accounting, they must be recognized as revenue when the earnings process is complete, even if billing occurs later.

12.10. To adjust for accrued receivables, review contracts, service agreements, or other evidence of earnings during the period that have not been invoiced. For each such transaction, record an accrual entry by debiting Accounts Receivable and crediting Revenue. By making these adjustments and recognizing earned revenue that has not yet been received, reversing cash-basis recognition of customer prepayments, and recording accrued revenues, the financial statements will accurately reflect the accrual basis of accounting. This conversion provides stakeholders with a clearer, more comprehensive view of the MDA's financial performance over the reporting period.

13.0 Subsequent reporting periods

13.1. Following the establishment of the first accrual-based OSFP, the key issues that arises is treatment of transactions in the interim period before transitioning to a fully IPSAS-based OSFP particularly distinction of between:

a. items initially recognized in the first accrual-based OSFP and
b. new transactions and events arising in subsequent reporting periods.

13.2. **Measurement of Assets Recognized in the First Accrual-Based OSFP**

For all property, plant, and equipment carried forward from the accrual-based OSFP**,** the cost model must be used or in its absence the deemed cost.

13.3. Depreciation should be calculated on a basis that best reflects the economic reality of each asset's expected useful life and pattern of consumption.

13.4. Impairment reviews should be performed only upon the identification of a triggering event that indicates a material decline in an asset's carrying amount, that is, unless there is external evidence (e.g., obsolescence, physical damage, or market changes) requiring a write-down, assets should continue to be carried at cost less accumulated depreciation.

13.5. Unlike the revaluation model, using current values as deemed cost at initial recognition does not necessitate a revaluation in any later period; once the carrying amount is set at deemed cost, subsequent measurements remain on a cost basis, unless the MDA elects to adopt revaluation.

13.6. **Financial Assets and Liabilities Initially Measured at Current Value**
Any financial assets or financial liabilities that were initially recorded at current value in the first accrual-based OSFP should, in subsequent periods, be measured at amortized cost. In practice, this means recognizing interest revenue or expense using the effective interest method, amortizing premiums or discounts over the instrument's life, and continuing to assess for impairment (for assets) or credit risk changes (for liabilities). This approach aligns with the expectation that, during the interim period, volatility arising solely from market movements in existing financial instruments should not be recognized through profit or loss beyond what the effective interest method and impairment assessments dictate.

13.7. **Recognition and measurement of new transactions in Subsequent Reporting Periods**

13.8. All events and transactions arising after the date of the Opening Statement of Financial Position must be recognized and measured according to the standard IPSAS guidance in force at that time. In other words, from the date the opening balance sheet is prepared onward, entities should apply the full suite of accrual-based IPSAS measurement, recognition, and disclosure criteria for revenues, expenses, liabilities, and assets.

13.9. During the transition period following the establishment of the first accrual-based opening statement of financial position (OSFP) and lasting until adoption of full IPSAS-based reporting, MDA's should continue to apply the cost model for assets initially recognized in the accrual-based opening balance sheet (OBS). Specifically, depreciation should be calculated using a method that best reflects the asset's expected useful life and the pattern in which economic benefits are consumed. MDA's need not revalue assets simply because current values have been used as deemed cost at initial recognition; instead, they should apply the cost model without

further revaluations during subsequent reporting periods, unless a material impairment indicator arises. In such cases, the recognition of an impairment loss is only recommended if a known triggering event suggests that the carrying amount of a long-term asset may no longer be recoverable.

13.10. For financial assets and liabilities that were measured at current value upon initial recognition in the opening Statement of Financial Position, subsequent measurement should revert to amortized cost unless the MDA elects otherwise. This means that, after the opening period, MDAs should calculate interest income or expense using the effective interest rate method and adjust carrying amounts to reflect repayments, impairments, and any modifications. By measuring these instruments at amortized cost, the reporting MDA ensures consistency with IPSAS requirements and avoids unnecessary volatility in profit or loss that might arise from marking them to market in each reporting period.

13.11. Finally, if an MDA chooses, as a departure from the cost model guidance above, to apply the revaluation model to certain categories of assets in subsequent reporting periods, it is encouraged to follow the requirements of IPSAS 33. Those requirements set out detailed guidance on how to measure assets at fair value, how to account for revaluation increases and decreases, and how to present revaluation surpluses in net assets/equity. By adhering to IPSAS 33, the MDA ensures that revalued asset classes are measured consistently, revaluation adjustments are appropriately recognized (either in other comprehensive surplus/deficit, depending on the circumstances), and any subsequent derecognition of revalued items is handled in line with international best practice.

13.12. **De-Recognition of Assets and Liabilities**

13.13. When an asset or liability recognized in either the Opening Statement of Financial Position or in a subsequent period is disposed of, derecognition should occur promptly in the accounts. MDAs should measure any actual gain or loss on disposal as the difference between the proceeds from sale (if any) and the asset's carrying amount at the date of disposal (for assets), or between the carrying amount of a liability and the amount paid to extinguish it. These gains or losses must be recognized in surplus or deficit at the time of derecognition. By doing so on an ongoing basis, MDAs ensure that the Statement of Financial Performance fairly reflects the economic consequences of disposing of assets and settling liabilities during the interim period.

13.14. To derecognize liabilities that are disposed during the transition to Accrual Basis IPSAS, debit the liability account and credit the appropriate account (e.g., cash, other asset, or expense account) that reflects the disposition.

13.15. During the transition to Accrual Basis IPSAS, when an asset is disposed of, the journal entries to derecognize it will depend on whether the asset was previously recorded or not. If it was, the entries will include reducing the asset's carrying value and any accumulated depreciation, and recognizing any gains or losses on disposal. If not, the entries will involve recognizing the asset at its historical cost, then derecognizing it along with any accumulated depreciation.

13.16. If the asset was previously recorded (e.g., under the old cash basis):

Particulars	Debit	Credit

Cash/Receivables A/c (for the disposal proceeds)	XXX	
Accumulated Depreciation(for the accumulated depreciation of the disposed asset)		XXX
PPE (for the carrying amount of the disposed asset)		XXX
Gain/Loss on Disposal (if the disposal proceeds are greater/less than the carrying amount)	XXX	

13.17. Example:

An old computer is disposed of. Its original cost was CU1,000, and the accumulated depreciation is CU600. The disposal proceeds are CU500.

- **Debit:** Cash (500)
    - **Credit:** Accumulated Depreciation (600)
    - **Credit:** Property, Plant & Equipment (1000)
- **Debit:** Gain on Disposal (100)

13.18. Important Considerations

When determining the carrying value of an asset upon transition, it is essential first to establish its historical cost by including not only the purchase price but also any expenditures necessary to bring the asset to working condition—such as delivery, installation, and testing fees. Once the historical cost is accurately recorded, any accumulated depreciation recognized prior to the transition must be identified and deducted to ensure that the asset's net carrying amount reflects the total depreciation taken to date. By capturing both the comprehensive cost to acquire and prepare the asset and the correct accumulated depreciation, the financial statements will present a fair and complete view of the asset's value at the transition date.

By following these application guidelines, MDAs will maintain consistency in their accounting policies during the transition period: carrying over existing assets and liabilities under the cost or amortized cost models as set out in the opening accrual-based OSFP, while ensuring that any new items or disposals comply fully with IPSAS recognition and measurement requirements. This approach both preserves comparability between periods and lays a sound foundation for adopting a comprehensive IPSAS-based reporting framework once the transition is complete.

13.19. By following these application guidelines, MDAs will maintain consistency in their accounting policies during the transition period: carrying over existing assets and liabilities under the cost or amortized cost models as set out in the opening accrual-based OSFP, while ensuring that any new items or disposals comply fully with IPSAS recognition and measurement requirements. This approach both preserves comparability between periods and lays a sound foundation for adopting a comprehensive IPSAS-based reporting framework once the transition is complete.

14.0 References

1) IPSAS 33 – Property, Plant and Equipment
2) EPSAS Guidance for First time implementation (FTI) of accrual accounting Version 1.0 (April. 2017)
3) Malaysia Accrual Accounting Manual v3.0 (Sept. 2021)

Appendices

Appendix 1: Illustrative example of first- time adoption of IPSAS

This appendix provides an example of how to prepare an opening statement of financial position. It assumes 1 January, 20X3 as the date of IPSAS first time adoption. It outlines specific adjustments made to the balances reported as of 31December, 20X2 under the entity's previous accounting policies. Additionally, the annex includes a reconciliation of net assets/equity, highlighting the changes resulting from the adoption of IPSAS through accounting policy adjustments.

			Closing balance under the previous accounting policies	IPSAS adjustments	Opening statement of financial position
		Notes	31 December, 20X2		1 January, 20X3
			CU'000	CU'000	CU'000
	Assets				
	Non-current assets				
IPSAS 1.88(a)	Property, plant, and equipment	1	60	(20)	40
IPSAS 1.88(c)	Intangibles and goodwill				
IPSAS 1.88(b)	Investment property				
IPSAS 1.89	Biological assets				
IPSAS	Equity accounted				

1.88(e)	investees				
IPSAS 1.88(d)	Other investments and derivative assets	8	760	(160)	600
	Concessionary loans issued				
	Total non-current assets		**820**	**(180)**	**640**
	Current assets				
IPSAS 1.88(i)	Cash and cash equivalents		400	160	560
IPSAS 1.88(h)	Receivables (from exchange transactions)	6	300	(120)	180
IPSAS 1.88(g)	Recoverables (from non-exchange transactions)				
IPSAS 1.88(f)	Inventories	2		40	40
IPSAS 1.89	Prepayments and other assets				
IPSAS 1.88(d)	Other investments and derivative assets				
IPSAS 1.89	Biological assets				
	Concessionary loans issued				
IPSAS 1.88.1(a)	Assets held for sale				
	Total current assets		**700**	**80**	**780**
	Total assets		**1,520**	**(100)**	**1,420**

	Net assets/equity and liabilities			
	Capital and reserves			
IPSAS 1.95(a)	Contributed/[Share] capital			
IPSAS 1.95(c)	Available-for-sale financial assets fair value reserve			
IPSAS 1.95(c)	Foreign currency translation reserve			
IPSAS 1.95(c)	Revaluation surplus			
IPSAS 17.92(e)				
IPSAS 1.95(c)	Special purpose reserve			
IPSAS 1.95(b)	Accumulated revenue and expense	520	(320)	200
IPSAS 1.88(o)	**Net assets / equity attributable to the owners of the controlling entity**	520	(320)	200
IPSAS 1.88(n)	Non-controlling interests			
IPSAS 1.95(d)	**Total net assets/equity**	**520**	**(320)**	**200**
	Non-current liabilities			
IPSAS 1.89	Employee benefit liability 3		50	50

IPSAS 1.88(m)	Concessionary borrowings	4	200	(80)	120
IPSAS 1.88(m)	Finance leases payable				
IPSAS 1.88(m)	Derivative liabilities				
IPSAS 1.88(l)	Provisions				
	Non-exchange liabilities				
	Total non-current liabilities		200	(30)	170
	Current liabilities				
IPSAS 1.88(i)	Cash and cash equivalents – bank overdraft				
IPSAS 1.88(k)	Payables (from exchange transactions)				
IPSAS 1.89	Deferred revenue	7		140	140
IPSAS 1.88(m)	Employee benefit liability	3		10	10
IPSAS 1.88(m)	Loans				
IPSAS 1.88(m)	Finance leases payable				
IPSAS 1.88(l)	Derivative liabilities				
IPSAS 1.88(l)	Provisions				

IPSAS 1.88.1(b)	Non-exchange liabilities	5	800	100	900
IPSAS 1.88(l)	Liabilities held for sale				
	Total current liabilities		**800**	**250**	**1,050**
	Total liabilities		**1,000**	**220**	**1,220**
	Total equity and liabilities		**1,520**	**(100)**	**1,420**

Appendix 2: Reconciliation of net assets/equity

This appendix presents a reconciliation between the net assets/equity balance reported under the entity's previous accounting framework and the opening net assets/equity balance upon adopting IPSAS. The adjustments resulting from the transition to IPSAS amounted to CU320,000, as detailed below:

		Adjustments
	Notes	**31st December 20X2**
		CU'000
Adjustment to buildings	1	(20)
Recognition of inventories	2	40
Recognition of employee benefit liability	3	(60)
Adjustment to concessionary borrowings	4	80
Adjustment to foreign exchange liabilities (unrealized exchange loss)	5	(100)
Adjustment to allowance for doubtful accounts receivable	6	(120)
Recognition of deferred revenue	7	(140)

Total IPSAS adjustments	**(320)**
Closing balance net assets/equity 31st December 20X2	**520**
Opening balance net assets/equity 1st January 20X3	**200**

Appendix 3: Opening Statement of Financial Position Template with minimum recommendations

Non-current assets	**Non-current liabilities**
• Property, plant and equipment ○ Infrastructure assets ○ Buildings ○ Dwellings ○ Land ○ Assets under construction ○ Military equipment ○ Other • Investment property • Intangible assets • Receivables from non-exchange transactions • Receivables from exchange transactions • Equity investment • Loans • Other financial assets	• Payables from non-exchange transactions • Payables from exchange transactions • Borrowings • Provisions for liabilities and charges • Other financial liabilities • Accrued expense/ deferred revenue ***Total non-current liabilities*** **Current liabilities** • Payables from non-exchange transactions • Payables from exchange transactions • Borrowings • Provisions for liabilities and charges • Other financial liabilities • Accrued expense/ deferred revenue

• Accrued revenue/ deferred expense ***Total non-current assets*** **Current assets** • Inventories • Assets held for sale • Receivables from non-exchange transactions • Receivables from exchange transactions • Loans • Cash and cash equivalents • Other financial assets • Accrued revenue/ deferred expense ***Total current assets*** **Total assets**	***Total current liabilities*** **Total liabilities** **Net worth (= net assets/ liabilities)** • Accumulated surplus/ deficit • Surplus/ deficit for the year • Other reserves ***Total net worth (attributable to tax payers/ owners of the entity)*** **Total net worth and liabilities**

Appendix 4: Statement of Financial Performance Template with minimum recommendations

Revenue from non-exchange transactions

- Taxes
- Transfers received

Revenue from exchange transactions

- Revenue from sales of goods and services (including profits on disposal)
- Investment revenue
- Other revenue from exchange transactions

Total revenue

Expenses

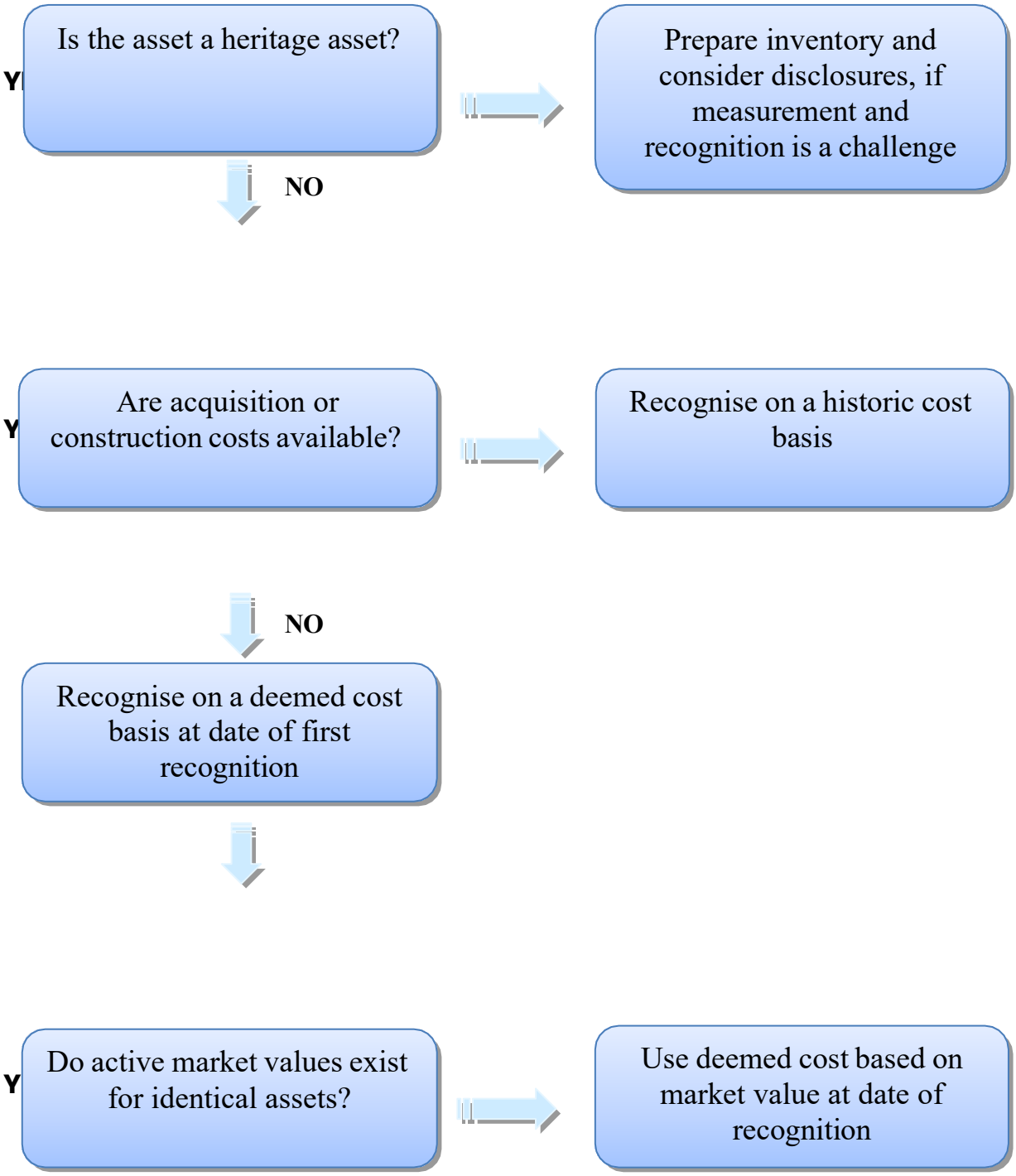
- Staff costs
- Goods and services expenses (including losses on disposal)
- Transfers paid (including social benefits)
- Depreciation and impairment charges
- Finance costs

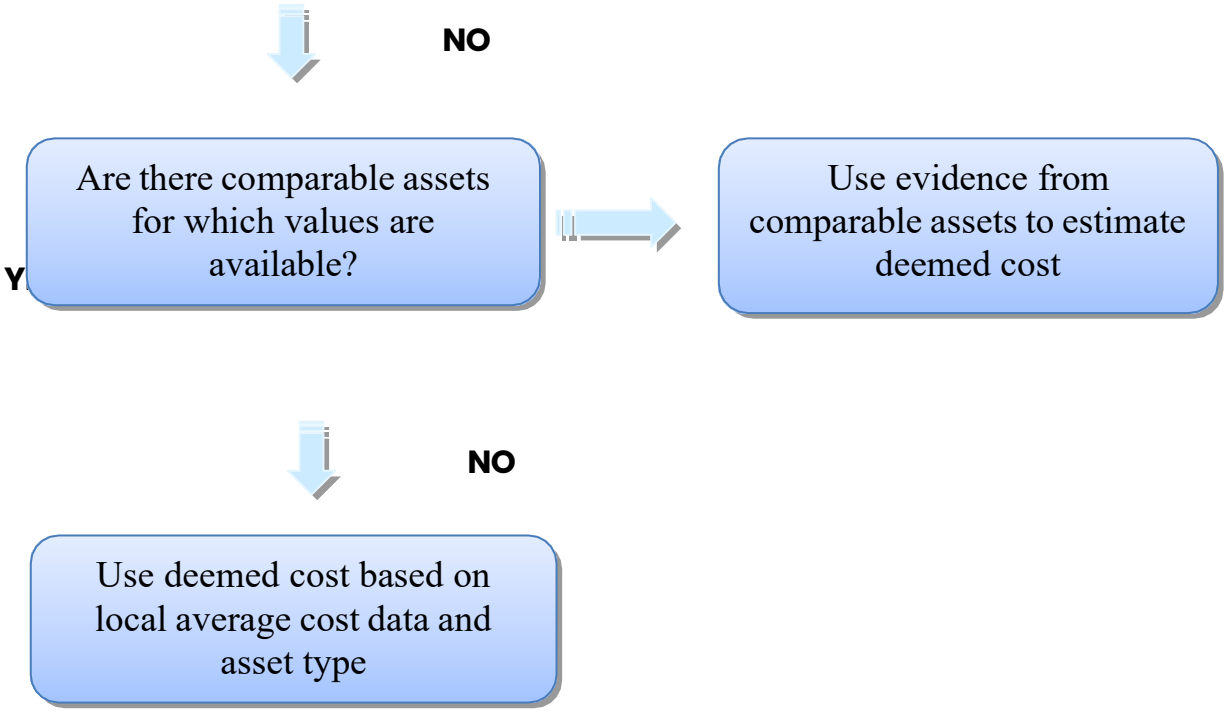
Total expenses

Net expenses/ revenue (surplus/ deficit for the year)

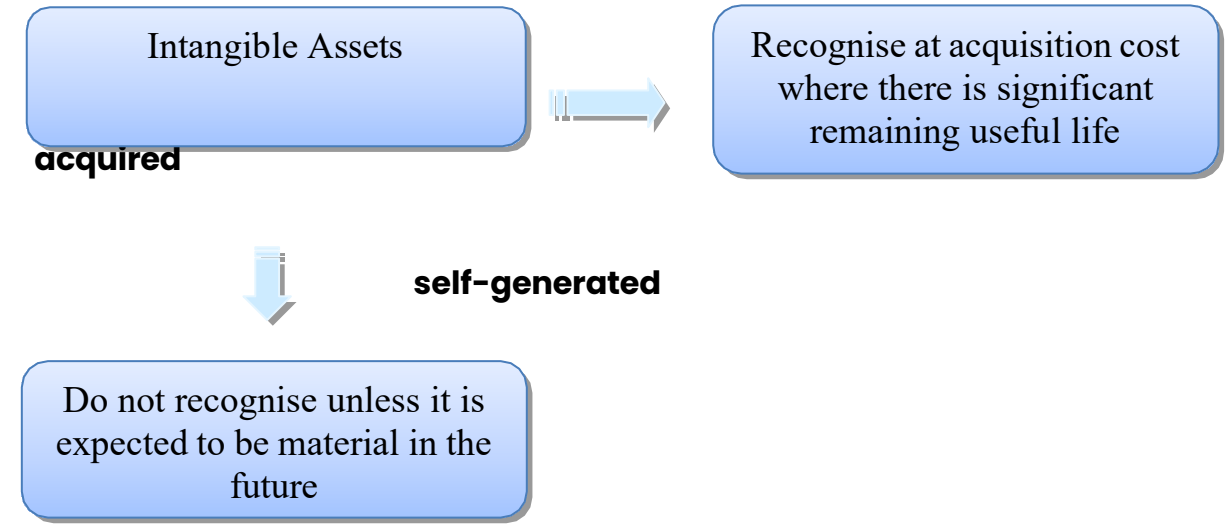
Annex 5: Illustrative decision trees for initial measurement

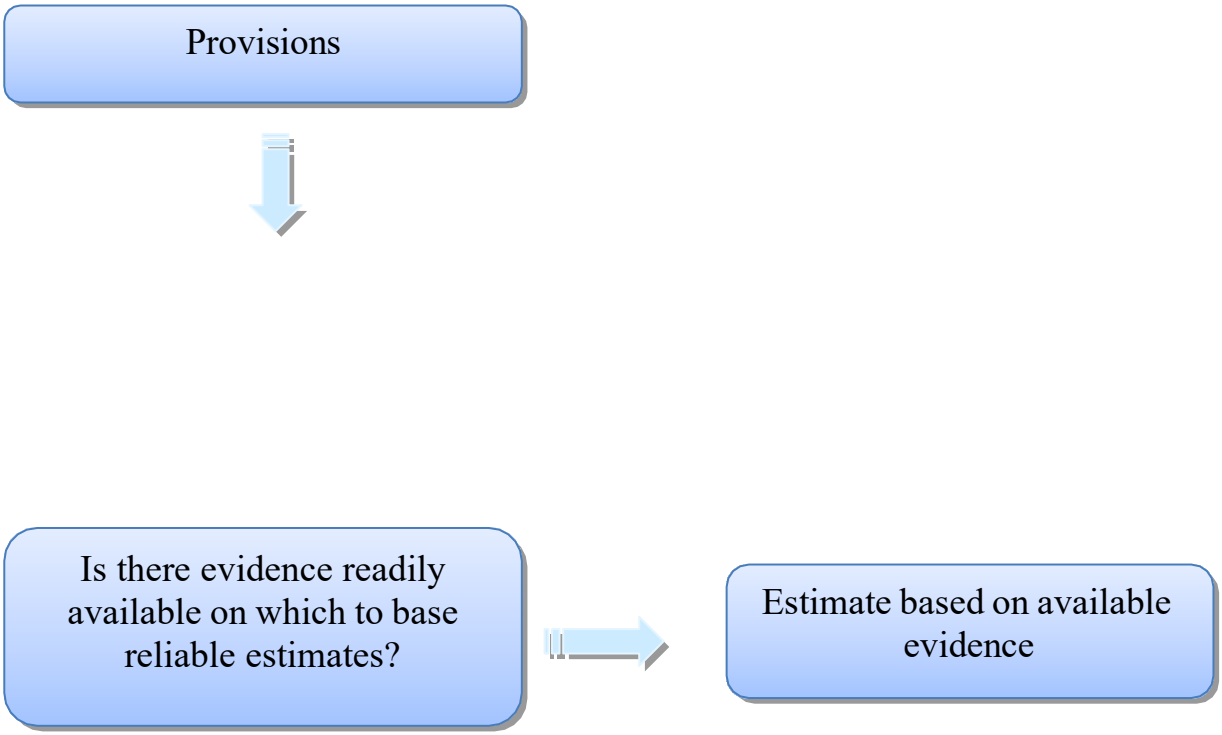
Property, Plant and Equipment




NO
Are there comparable assets for which values are available?
Y
Use evidence from comparable assets to estimate deemed cost
NO
Use deemed cost based on local average cost data and asset type

Annex 6: Other Assets and Liabilities

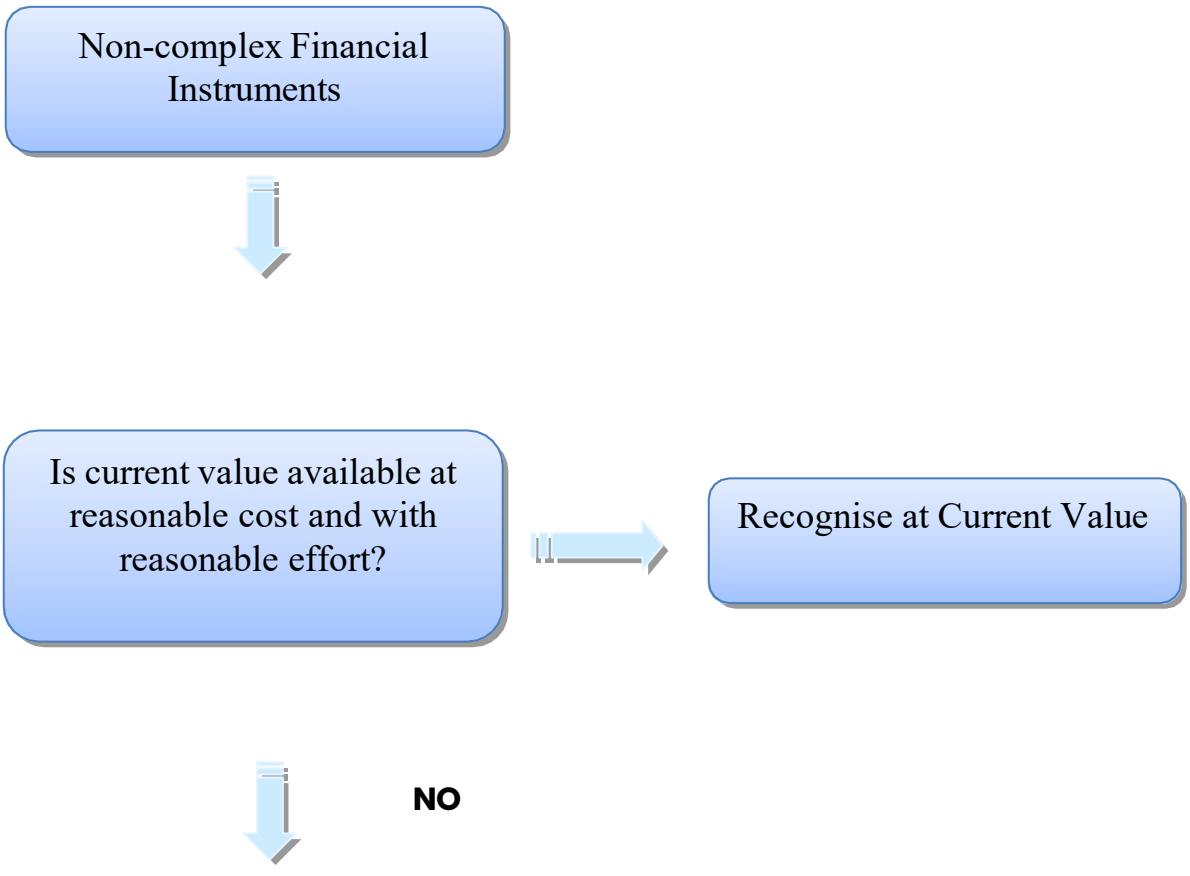


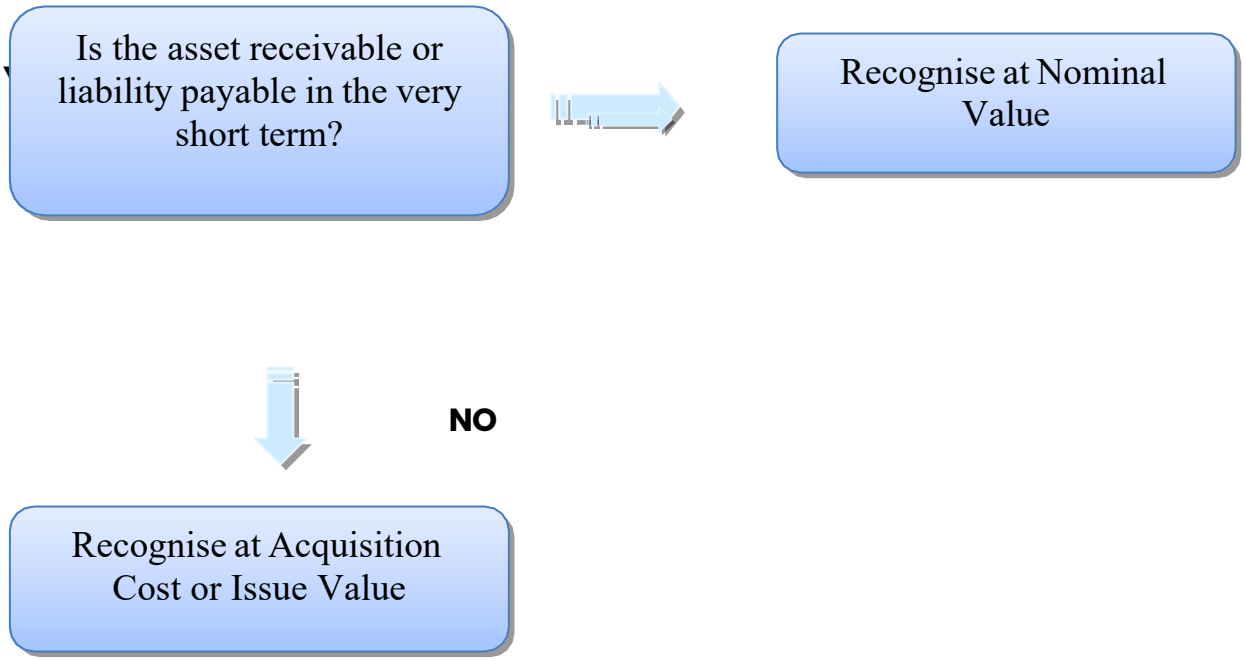


NO

Defer recognition to a later stage

Annex 7: Financial Assets and Liabilities





Annex 8: IPSAS 33 Presentation and disclosure checklist

IPSAS 33 outlines various presentation and disclosure requirements that go beyond those mandated by other standards. These supplementary disclosures apply to an entity's first transitional IPSAS financial statements and its first full IPSAS financial statements. The checklist below highlights these additional disclosure obligations.

IPSAS 33, paragraph	Disclosures	Check
135	A first-time adopter with financial statements that comply with the requirements of this IPSAS while taking advantage of the transitional exemptions and provisions that affect fair presentation and its ability to assert compliance with accrual basis IPSAS, shall make an explicit and unreserved statement of compliance with this IPSAS in the notes to the financial statements. This statement shall be accompanied by a statement that the financial statements do not fully comply with accrual basis IPSAS.	
136	Where a first-time adopter takes advantage of the transitional exemptions in this IPSAS, the first-time adopter shall disclose:	
136(a)	(a) The extent to which it has taken advantage of the transitional exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS; and/or	
136(b)	(b) The extent to which it has taken advantage of the transitional exemptions that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.	
137	To the extent that a first-time adopter has taken advantage of the transitional exemptions and provisions in this IPSAS	

	that affect fair presentation and compliance with accrual basis IPSAS in relation to assets, liabilities, revenue and/or expenses, it shall disclose:	
137(a)	(a) Progress made towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenue, and/or expenses in accordance with the requirements of the applicable IPSAS;	
137(b)	(b) The assets, liabilities, revenue and/or expenses that have been recognized and measured under an accounting policy that is not consistent with the requirements of applicable IPSAS;	
137(c)	(c) The assets, liabilities, revenue and/or expenses that have not been recognized, measured, presented and/or disclosed in the previous reporting period, but which are now recognized and/or measured, and/or presented and/or disclosed;	
137(d)	(d) The nature and amount of any adjustments recognized during the reporting period; and	
137(e)	(e) An indication of how and by when it intends to comply in full with the requirements of the applicable IPSAS.	
138	Where a first-time adopter takes advantage of the transitional exemption to not eliminate some balances, transactions, revenue and expenses, and/or where it applies the three year transitional relief for the recognition and/or measurement of its interest in controlled entities, associates or joint ventures in paragraph 55, it shall disclose the nature of the balances, transactions, revenue and expenses and/or upstream or downstream transactions that have been eliminated during the reporting period.	
139	Where a first-time adopter is not able to present consolidated financial statements because of the transitional exemptions and provisions adopted in paragraphs 58 or 62, it shall	

	disclose:	
139(a)	(a) The reason why the financial statements, investments in associates or interests in joint ventures could not be presented as consolidated financial statements; and	
139(b)	(b) An indication by when the first-time adopter will be able to present consolidated financial statements.	
140	The disclosure requirements of paragraphs 135 and 139 will assist users to track the progress of the first-time adopter in conforming its accounting policies to the requirements in the applicable IPSAS during the period of transition.	

Explanation of Transition to IPSAS

141	A first-time adopter shall disclose:	
141(a)	(a) The date of adoption of IPSAS; and	
141(b)	(b) Information and explanations about how the transition from the previous basis of accounting to IPSAS affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.	

Reconciliations

142	A first-time adopter shall present in the notes to its transitional IPSAS financial statements or its first IPSAS financial statements:	
142(a)	(a) A reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSAS; and	
142(b)	(b) A reconciliation of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of IPSAS.	
	A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations.	

143	The reconciliation presented in accordance with paragraph 142 shall provide sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the opening statement of financial position and, where applicable, the restated comparative statement of financial performance presented in accordance with accrual basis IPSAS. Where narrative explanations are included in other public documents issued in conjunction with the financial statements, a cross reference to those documents shall be included in the notes.	
144	If an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required by paragraph 142 shall distinguish the correction of those errors from changes in accounting policies.	
145	If an entity did not present financial statements for previous periods, its transitional IPSAS financial statements or its first IPSAS financial statements shall disclose that fact.	
146	Where a first-time adopter takes advantage of the exemptions in paragraph 36–43 which allow a three-year transitional relief period to not recognize and/or measure items, it shall present as part of the notes, a reconciliation of items that have been recognized and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation shall be presented in each period when new items are recognized and/or measured in accordance with this IPSAS.	
147	The reconciliation presented in accordance with paragraph 146 provides sufficient detail to enable users to understand which items have been recognized and/or measured during the reporting period where the first-time adopter adopts one or more of the exemptions that provide a three-year transitional relief period to not recognize and/ or measure an item. The reconciliation explains the adjustments to the previously	

	reported statement of financial position and, where applicable, the previously reported statement of financial performance in each period when new items are recognized and/ or measured in accordance with this IPSAS.	

Disclosures where Deemed Cost is Used for Inventory, Investment Property, Property, Plant and Equipment, Intangible Assets, Financial Instruments or Service Concession Assets

148	If a first-time adopter uses fair value, or the alternative in paragraphs 64, 67 or 70, as deemed cost for inventory, investment property, property, plant and equipment, intangible assets, financial instruments, or service concession assets, its financial statements shall disclose:	
148(a)	(a) The aggregate of those fair values or other measurement alternatives that were considered in determining deemed cost;	
148(b)	(b) The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and	
148(c)	(c) Whether the deemed cost was determined on the date of adoption of IPSAS or during the period of transition.	

Disclosures Where Deemed Cost is Used for Investments in Controlled Entities, Associates or Joint Ventures

149	If a first-time adopter uses fair value as deemed cost in its opening statement of financial position for an investment in a controlled entity, associate or joint venture in its separate financial statements, its separate financial statements shall disclose:	
149(a)	(a) The aggregate deemed cost of those investments for which deemed cost is fair value; and	

149(b)	(b) The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.	
150	The disclosure requirements required in paragraph 148 and 149 shall be disclosed in each period when new items are recognized and/or measured until the exemptions that provided the relief have expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).	

Exemptions from Disclosure Requirements in IPSAS During the Period of Transition

151	To the extent that a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure items, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in IPSAS 1, IPSAS 18 and/or the applicable IPSAS until such time as the exemptions that provided the relief have expired and/or when the relevant items have been recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).	
152	Notwithstanding the transitional provision in paragraph 151, a first-time adopter is encouraged to disclose the information required by IPSAS 1, IPSAS 18 and/or the applicable IPSAS as soon as possible.	

Transitional Provisions

153	Where a first-time adopter has adopted the existing transitional provisions in other accrual basis IPSAS, it shall continue to apply those transitional provisions until they expire and/or the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). If the first-time adopter elects to adopt the transitional exemptions in this IPSAS, the relief period applied in adopting accrual basis IPSAS, may not be longer than the relief period provided in this IPSAS.	